

Sapphire Foods

India | Consumer Discretionary | Result Update | Rating Upgrade

Elara Capital

7 February 2026

In-line growth performance

Sapphire Foods' (SAPPHIRE IN) Q3 was largely in-line on the growth front, but margins were ahead. SSSG for KFC turned positive at 1.0% on a low base, on lower discounting and improved traction from value pilots (January trend stronger than Q3.) Expansion was measured. Pizza Hut continued to face strain (revenue down ~11% YoY and SSS ~12%, though gross margins improved QoQ). Expect a clearer turnaround strategy post discussions with Devyani, subject to approvals. Sri Lanka show was steady. We cut estimates (revenue down 2-6% and EBITDA 6-7% for FY26E-28E), and thus, our TP to INR 310 (from INR 330). The stock has corrected ~25% in three months, ahead of fundamentals. **We upgrade to BUY** from Accumualte.

KFC – SSSG turns positive: IN Q3, the *KFC* brand posted an SSSG of 1.0%, largely on a low base of 3.0%. *KFC* has lowered overall discounts and offers, thus aiding topline growth and SSSG. SAPPHIRE slowed down the "EPIC Saver" campaign due to lower traction and piloted a "Chicken Krisper" meal at INR 99 in c.25% of stores. This drove transaction growth in dine-in and takeaway channels, with January SSSG trending higher than Q3. Sales mix-wise, delivery salience rose to 44% (from 41% last year), channel sales rose 19% YoY, while dine-in pared to 35% (from 38%), revenue up 3.0% YoY. Store additions were slow (27 added to reach 556, up 12.1% YoY). Expect KFC to add 572 stores by FY26E. 9M SSS declined to 0.7%, with January positive. Expect FY26E SSSG to remain flat and grow c.2% each year till FY28E.

Pizza Hut – Strain continues: PH India sustained demand weakness for three straight quarters, with Q3 revenue declining c.11% YoY, led by a sharp 12% fall in SSS, despite the addition of a store, keeping the total store count flat at 339 YoY. Nonetheless, gross margin profitability was up 50bps QOQ to ~74.9%. With focus on improving performance of the current network, PH may see minimal store additions. A comprehensive turnaround plan is expected to be detailed after the merger with DEVYANI receives CCI approval. Given multiple execution monitorables, we model PH SSS to decline 8.0% in FY26E.

Gross margin gains prop EBITDA: However, consolidated margin dropped 126bps YoY on higher expenses. Gross margin gains, near term, could be buoyant with PH and KFC calibrating discounts and offers. EBITDAM (pre-IND As) was at 9.5%, down by 121bps YoY. At Sri Lanka operations, gross margin gained 160bps YoY, although higher other expenses pared restaurant margin by 110bps to 16.7% in Q3.

Upgrade to BUY; TP pared to INR 300: Q3 was in-line on growth, but margins were ahead of estimates. Monitor store growth at KFC (the only growth driver) as the *Pizza Hut* brand continues to face growth challenges. Expect strategic action on Pizza Hut only post discussion with DEVYANI (after regulatory approvals). Sri Lanka operation is steady. Expect SSSG to be in low-double digits, near term. Factoring in SSS dip in Q3, we pare our revenue estimates by 2-6% and EBITDA by 6-7% in FY26E-28E. However, the stock dropped 25% in past three months, ahead of performance. So, we upgrade SAPPHIRE to BUY. We value KFC at pared EV/EBITDA pre-IndAS of 28x (from 33x), Pizza Hut at 2x price to sales and Sri Lanka operations at 2x EV/EBITDA pre-IndAS, resulting in pared TP of INR 300 (from INR 330).

Key financials

YE March (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Revenue (INR mn)	25,943	28,819	29,817	33,025	36,515
YoY (%)	14.5	11.1	3.5	10.8	10.6
EBITDA (INR mn)	4,613	4,768	4,314	5,365	6,135
EBITDA margin (%)	17.8	16.5	14.5	16.2	16.8
Adj PAT (INR mn)	520	320	(267)	253	641
YoY (%)	(77.7)	(38.4)	(183.4)	(195.0)	152.9
Fully DEPS (INR)	1.6	1.0	(0.8)	0.8	2.0
RoE (%)	4.0	2.3	(1.9)	1.8	4.5
RoCE (%)	10.3	8.1	2.6	6.9	8.0
P/E (x)	133.0	215.9	(259.0)	272.7	107.8
EV/EBITDA (x)	17.7	17.1	18.9	15.2	13.3

Note: Pricing as on 06 February 2026; Source: Company, Elara Securities Estimate

Rating: **Buy**

Target Price: **INR 300**

Upside: **40%**

CMP: **INR 215**

As on 06 February 2026

Key data

Bloomberg	SAPPHIRE IN
Reuters Code	SAPI.NS
Shares outstanding (mn)	321
Market cap (INR bn/USD mn)	69/763
EV (INR bn/USD mn)	82/900
ADTV 3M (INR mn/USD mn)	222/2
52 week high/low	368/179
Free float (%)	73

Note: as on 06 February 2026; Source: Bloomberg

Price chart



Source: Bloomberg

Shareholding (%)	Q4 FY25	Q1 FY26	Q2 FY26	Q3 FY26
Promoter	26.1	26.1	26.1	26.1
% Pledge	0.0	0.0	0.0	0.0
FII	30.4	31.6	31.3	29.2
DII	38.5	37.9	37.3	37.6
Others	5.0	4.5	5.4	7.2

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	0.8	5.5	9.1
Sapphire Foods	(20.4)	(32.2)	(33.4)
NSE Mid-cap	0.1	5.3	9.9
NSE Small-cap	(6.8)	(4.1)	(1.1)

Source: Bloomberg

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Financials (YE March)

Income Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Total Revenue	25,943	28,819	29,817	33,025	36,515
Gross Profit	17,834	19,750	20,378	23,058	25,544
EBITDA	4,613	4,768	4,314	5,365	6,135
EBIT	1,374	1,128	369	973	1,161
Interest expense	1,009	1,116	1,228	930	980
Other income	334	372	493	291	662
Exceptional/ Extra-ordinary items	-	(153)	-	-	-
PBT	699	231	(365)	333	843
Tax	180	64	(99)	80	202
Minority interest/Associates income	-	-	-	-	-
Reported PAT	520	167	(267)	253	641
Adjusted PAT	520	320	(267)	253	641
Balance Sheet (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Shareholders' Equity	13,398	13,962	13,695	13,948	14,589
Minority Interest	-	-	-	-	-
Trade Payables	2,308	2,425	2,687	2,837	3,123
Provisions & Other Current Liabilities	1,991	2,022	2,156	2,295	2,446
Total Borrowings	276	199	199	199	199
Other long term liabilities	10,427	11,802	9,083	9,374	10,340
Total liabilities & equity	28,401	30,410	27,820	28,653	30,697
Net Fixed Assets	10,337	10,865	9,781	8,335	7,193
Goodwill	1,622	1,583	1,583	1,583	1,583
Intangible assets	7	9	9	9	9
Business Investments / other NC assets	12,803	13,727	12,929	13,360	14,476
Cash, Bank Balances & treasury investments	976	583	(314)	1,373	3,265
Inventories	969	956	1,114	1,233	1,364
Sundry Debtors	344	366	395	438	484
Other Current Assets	1,344	2,322	2,322	2,322	2,322
Total Assets	28,401	30,410	27,819	28,652	30,696
Cash Flow Statement (INR mn)	FY24	FY25	FY26E	FY27E	FY28E
Cashflow from Operations	3,529	3,984	2,699	5,273	6,042
Capital expenditure	(3,851)	(2,649)	(2,860)	(2,946)	(3,833)
Acquisitions / divestitures	-	-	-	-	-
Other Business cashflow	1,982	(719)	493	291	662
Free Cash Flow	1,660	616	332	2,618	2,871
Cashflow from Financing	(1,128)	(1,009)	(1,229)	(930)	(980)
Net Change in Cash / treasury investments	531	(393)	(897)	1,687	1,892
Key assumptions & Ratios	FY24	FY25	FY26E	FY27E	FY28E
Dividend per share (INR)	-	-	-	-	-
Book value per share (INR)	41.7	43.5	42.6	43.4	45.4
RoCE (Pre-tax) (%)	10.3	8.1	2.6	6.9	8.0
ROIC (Pre-tax) (%)	10.9	8.6	2.7	7.2	9.6
ROE (%)	4.0	2.3	(1.9)	1.8	4.5
Asset Turnover (x)	2.8	2.7	2.9	3.6	4.7
Net Debt to Equity (x)	(0.1)	0.0	0.0	(0.1)	(0.2)
Net Debt to EBITDA (x)	(0.2)	(0.1)	0.1	(0.2)	(0.5)
Interest cover (x) (EBITDA/ int exp)	4.6	4.3	3.5	5.8	6.3
Total Working capital days (WC/rev)	(10.0)	(2.9)	(16.5)	2.7	19.6
Valuation	FY24	FY25	FY26E	FY27E	FY28E
P/E (x)	133.0	215.9	(259.0)	272.7	107.8
P/Sales (x)	2.7	2.4	2.3	2.1	1.9
EV/ EBITDA (x)	17.7	17.1	18.9	15.2	13.3
EV/ OCF (x)	23.1	20.5	30.2	15.5	13.5
FCF Yield	2.0	0.8	0.4	3.2	3.5
Price to BV (x)	5.2	4.9	5.0	5.0	4.7
Dividend yield (%)	-	-	-	-	-

We expect revenue CAGR of 8.2% in FY25-28E

Note: Pricing as on 06 February 2026; Source: Company, Elara Securities Estimate

Exhibit 1: Quarterly performance

Consolidated (INR mn)	Q3FY26	Q3FY25	YoY (%)	Q2FY26	QoQ (%)	Elara Est.	Diff (%)
Revenue	8,138	7,565	7.6	7,424	9.6	8,040	1
Gross margin (%)	68.7	68.6	8 bps	67.8	91 bps	67.4	131 bps
EBITDA	1,342	1,343	(0.1)	1,021	31.5	1,219	10
EBITDA margin (%)	16.5	17.8	(126) bps	13.8	274 bps	15.2	133 bps
Depreciation	1,020	1,005	1.5	972	4.9	977	4
Interest Cost	315	275	14.5	307	2.7	300	5
Other Income	71	105	(32.8)	92	(23.7)	90	(22)
PBT	(34)	168	(119.9)	(166)	(79.8)	31	(207)
Tax	15	41	(64.4)	(38)	(138.4)	5	208
Effective tax rate (%)	(43.4)	24.3		22.9		15.0	
PAT	(48)	127	(137.8)	(128)	(62.4)	27	(280)
Adj. PAT	64	127	(50.1)	(128)	(149.7)	27	138
Adj. EPS (INR)	0.2	0.4	(50.1)	(0.4)	(149.7)	0	

Source: Company, Elara Securities Estimate

Q3FY26 conference call key takeaways**Consolidated financial performance**

- Revenue growth: Total revenue for the quarter stood at INR 8,110mn, representing a 7% YoY growth.
- EBITDA margins: Consolidated restaurant EBITDA grew 5% YoY with margin of 15%. Consolidated EBITDA (post-Ind AS) was INR 1,360mn (16.8% margin), while adjusted EBITDA was INR 770mn (9.5% margin).
- Profitability: Adjusted profit before tax (PBT) before exceptions was INR 240mn (2.9% margin).

KFC: Operational highlights and strategy

- Strong profitability: Q3 was the best quarter for KFC in recent times regarding profitability, with restaurant EBITDA at 18.8%.
- Revenue and sales: KFC revenue grew by 11% YoY, with same store sales growth (SSSG) turning positive at 1%.
- Marketing strategy pivot: The company slowed down the "EPIC Saver" campaign and piloted a "Chicken Krisper" meal at INR 99 in ~25% of stores. This initiative drove transaction growth in dine-in and takeaway channels, with January SSSG trending higher than Q3.
- Expansion & technology: SAPPHIRE added 27 KFC stores in the quarter and 60 in the calendar year. Digital kiosk penetration has reached 70% of the estate.

Pizza Hut: Challenges and recovery

- Performance decline: Pizza Hut revenue declined by 11% YoY, with SSSG dropping by 12%. Restaurant EBITDA was negative at -3.1% due to negative operating leverage.
- Store count stagnation: The net new unit (NNU) addition for the calendar year was zero (new openings were offset by closures), with the total count standing at 1,028.
- Marketing constraints: The brand is struggling with lack of "marketing cloud" and awareness for its new innovations (e.g., Ultimate Cheese Pizza) and value offers (INR 99 meal). A revival strategy requires alignment with the other franchisee partner (Devyani), which is currently stalled pending merger approvals.
- Exception in Tamil Nadu: In Tamil Nadu, where SAPPHIRE has exclusive territory rights and continues to invest in marketing, the brand is delivering "double-digit delta performance" on both SSSG and EBITDA compared with the rest of the country.

Sri Lanka operations

- ▶ Robust growth: The Sri Lanka business grew revenue by 15% in local currency and 16% in INR terms.
- ▶ Operational metrics: SSSG was strong at 11%, supported by transaction growth. Restaurant EBITDA was 16.7%.
- ▶ Expansion: The company opened three Pizza Hut stores in Sri Lanka during the quarter and plans to continue opening high single-digit numbers of stores in the coming year.

Strategic updates and ESG

- ▶ Merger timeline: The merger with Devyani International is progressing. The entities continue to operate independently until the merger becomes effective, which is estimated to take ~12 months. The approval from Competition Commission of India (CCI) is expected within 3-6 months.
- ▶ ESG leadership: Sapphire Foods achieved a global ESG rating of 73/100, ranking in the top three QSR brands globally and number one in India.

Exhibit 2: Quarterly metrics

	Q3FY23	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
KFC													
Revenue (INR mn)	3,810	3,691	4,286	4,165	4,421	4,285	4,770	4,527	4,948	4,793	5,275	4,856	5,509
Gross Margin (%)	66.5	66.8	68.1	67.9	68.4	68.3	68.2	68.3	68.2	68	67.1	67.2	68.6
Restaurant EBITDA Margin (%) (pre-IndAS)	20.2	19.1	20.8	19.2	20.1	18.7	18.8	16.5	18.2	15.7	15.7	13.8	18.8
Average Daily Sales (INR'000)	136	127	138	125	125	114	122	111	115	108	116	103	112
No. of stores added (net) (nos)	24	16	17	23	25	23	13	19	35	6	8	19	27
Total stores at the end of the quarter (nos)	325	341	358	381	406	429	442	461	496	502	510	529	556
SSSG YoY (%)	3	2	-	-	(2)	(3)	(6)	(8)	(3)	(1)	-	(3)	1
Delivery revenue contribution (%)	36	38	36	38	38	39	40	42	41	43	43	45	44
Takeaway revenue contribution (%)	19	19	19	19	19	21	21	21	21	21	21	20	21
Dine In revenue contribution (%)	45	43	45	43	43	40	39	37	38	36	36	35	35
Delivery revenue growth (%)	22	18	25	26	22	19	24	20	21	23	19	15	19
Takeaway revenue growth (%)	19	13	21	19	16	28	23	20	24	12	11	2	11
Dine In revenue growth (%)	32	37	19	19	11	8	(4)	(6)	(1)	1	2	1	3
Pizza Hut													
Revenue (INR mn)	1,364	1,221	1,362	1,330	1,305	1,188	1,397	1,376	1,430	1,248	1,320	1,296	1,275
Gross Margin (%)	74.4	74.3	75.1	76.1	75.7	75.5	76.1	76.5	75.6	74.8	74.6	74.4	74.9
Restaurant EBITDA Margin (%) (pre-IndAS)	14.1	8.6	9.0	7.6	4.6	(2.7)	4.6	4.1	4.7	(4.6)	(2.5)	(1.8)	(3.1)
Average Daily Sales (INR'000)	58	50	52	48	45	41	48	47	48	42	44	42	41
No. of stores added (net) (nos)	25	12	16	9	8	-	1	3	16	(5)	2	2	1
Total stores at the end of the quarter (nos)	274	286	302	311	319	319	320	323	339	334	336	338	339
SSSG YoY (%)	(4)	(4)	(9)	(20)	(19)	(15)	(7)	(3)	5	1	(8)	(8)	(12)
Delivery revenue contribution (%)	50	52	50	49	49	50	50	52	51	52	50	50	47
Takeaway revenue contribution (%)	15	15	15	16	16	15	16	15	15	16	16	16	17
Dine In revenue contribution (%)	35	33	35	35	35	35	34	33	34	32	34	34	36
Delivery revenue growth (%)	23	18	19	(8)	(6)	(6)	3	10	14	9	(6)	(9)	(18)
Takeaway revenue growth (%)	13	18	5	1	2	(3)	9	(3)	3	12	(6)	-	1
Dine In revenue growth (%)	24	18	6	(6)	(4)	3	-	(2)	6	(4)	(6)	(3)	(6)
Sri Lanka Business													
Revenue (INR mn)	731	667	825	864	892	816	978	1,024	1,159	1,066	1,164	1,264	1,342
Gross Margin (%)	57.3	61.0	60.5	62.2	61.8	61.9	60.6	61.1	62.1	60.6	60.9	63.3	63.7
Restaurant EBITDA Margin (%) (pre-IndAS)	14.6	14.2	13.0	15.3	14.2	12.3	13.2	15.5	17.8	14.8	12.7	15.4	16.7
Average Daily Sales (INR'000)	75	65	81	81	81	75	89	93	103	95	103	109	114
No. of stores added (net) (nos)	6	-	4	4	(1)	(1)	-	1	5	1	1	2	3
Total stores at the end of the quarter (nos)	114	114	118	122	121	120	120	121	126	127	128	130	133
SSSG YoY (%)	18	(3)	-	1	1	4	11	9	14	16	12	14	11
Delivery revenue contribution (%)	36	36	37	36	37	37	38	38	37	38	39	38	39
Takeaway revenue contribution (%)	29	35	34	34	36	35	35	35	37	36	35	36	36
Dine In revenue contribution (%)	35	29	29	30	27	28	27	27	26	26	26	26	25
Delivery revenue growth (%)	(37)	(43)	-	37	25	26	22	25	30	34	22	23	22
Takeaway revenue growth (%)	(29)	(25)	39	13	51	22	22	22	34	34	19	27	13
Dine In revenue growth (%)	99	5	67	43	(6)	18	10	7	25	21	15	19	11

Source: Company, Elara Securities Research

Exhibit 3: Valuation

(INR mn)	Sep-28E
KFC India	
One year forward EBITDA (pre IndAS)	2,843
Multiple (x)	28
EV	81,007
EV per share	252
Pizza Hut India	
One year forward Sales	5,200
Multiple (x)	2
EV	10,401
EV per share	32
Sri Lanka Business	
One year forward EBITDA (pre IndAS)	485
Multiple (x)	2
EV	727
EV per share	2
Total EV	92,135
Cash (INR mn)	3,956
Debt (INR mn)	199
Equity Value (INR mn)	95,892
Total no. of shares (mn)	321.2
TP (INR)	300
CMP (INR)	215
Upside (%)	39

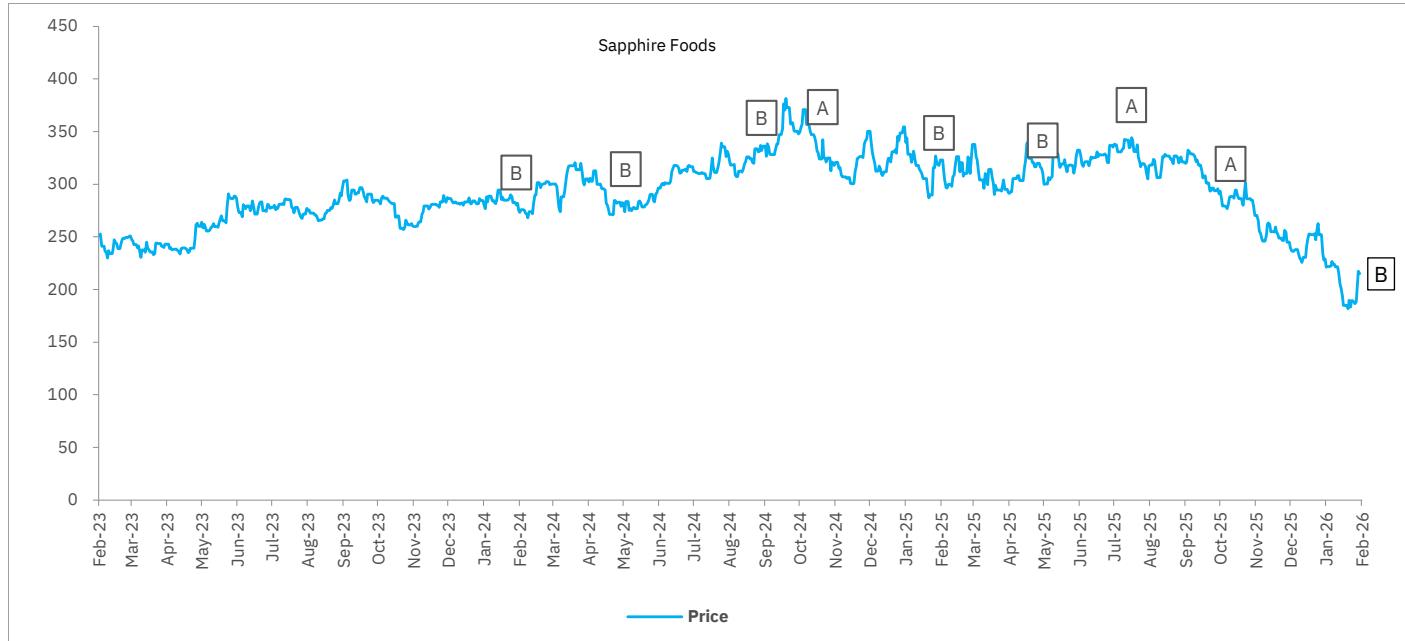
Source: Elara Securities Estimate

Exhibit 4: Changes in estimate

(INR mn)	Old			Revised			Changes		
	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E	FY26E	FY27E	FY28E
Revenue	30,536	34,574	38,782	29,817	33,025	36,515	(2.4)	(4.5)	(5.8)
EBITDA	4,573	5,604	6,609	4,314	5,365	6,135	(5.7)	(4.3)	(7.2)
EBITDA Margin (%)	15.0	16.2	17.0	14.5	16.2	16.8			
PAT	63	370	844	(267)	253	641	NA	(31.5)	(24.0)
EPS (INR)	0.2	1.2	2.6	(0.8)	0.8	2.0	NA	(31.5)	(24.0)
TP (INR)	330			300			(9.1)		
Rating	Accumulate			Buy					

Source: Elara Securities Estimate

Coverage History



Date	Rating	Target Price (INR)	Closing Price (INR)
05-Feb-2024	Buy	1,740	1,401
10-May-2024	Buy	1,785	1,417
05-Sep-2024	Buy	357	332
28-Oct-2024	Accumulate	390	342
06-Feb-2025	Buy	390	318
07-May-2025	Buy	370	311
23-Jul-2025	Accumulate	370	344
17-Oct-2025	Accumulate	330	289
06-Feb-2026	Buy	300	215

Guide to Research Rating

BUY (B) Absolute Return >+20%

ACCUMULATE (A) Absolute Return +5% to +20%

REDUCE (R) Absolute Return -5% to +5%

SELL (S) Absolute Return < -5%

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