

Profitability missed; Downgrade to Reduce

- SAPPHIRE's Revenue/EBITDA were in line with our estimates, while APAT was below. The company reported 8.1% revenue growth supported by 10.6/19.0% growth across KFC/Pizza Hut (Sri Lanka).
- Store expansion continued, with 8 new KFC stores and 2/1 Pizza Hut stores across India/Sri Lanka respectively, taking total restaurant count to 974. Going ahead, the company plans to add 60-80 KFC stores each year, while taking a more cautious approach on Pizza Hut expansion.
- We have lowered our EBITDA estimates for FY26/27E by 5.2/4.8% to factor in Q1 performance and a weaker-than-expected recovery. While SSSG is likely to improve on favorable base, operating margins in PH would remain under pressure. Valuing the stock at 16x FY27E EV/EBITDA we arrive at TP of Rs. 309 (Rs 318 earlier). We downgrade our rating to 'SELL' as Pizza Hut's performance is expected to take longer time to recover.

Revenue and EBITDA in line; APAT below our estimates

SAPPHIRE's revenue grew by 8.1% YoY to Rs 7.8bn. KFC (India) and Pizza Hut (Sri Lanka) delivered double-digit revenue growth, while Pizza Hut (India) registered mid-single-digit de-growth. GM contracted by 120bps to 67.4%. A 120/160bps increase in RM cost/other expenses led to EBITDA margin contraction of 280bps to 14.5%. EBITDA de-grew by 9.1% YoY to Rs 1.1bn. The company reported loss of 17mn vs profit of 82mn in Q1FY25.

KFC SSSG improved by value offers and marketing initiatives

During the quarter, KFC reported flat SSSG (improved YoY and QoQ), however, Pizza Hut reported -8%. The company's emphasis on value offerings for core products and increased marketing investments in product innovations contributed to positive SSTG. However, Pizza Hut's GM contracted by 150bps due to increased value and promotional offerings. This, coupled with higher marketing spends, resulted in a negative restaurant EBITDA margin of 2.5%. Further, store-level GM/ EBITDM in KFC contracted by 110/310bps due to operating deleverage. Decline in Pizza & KFC business margins can be attributed to lower operating leverage during the quarter.

Healthy Improvement in Sri Lanka

Sri Lanka's business reported 15/19% growth in LKR/INR terms, supported by 12% SSSG growth. However, the business reported a 12.7% EBITDA, down by 50bps YoY due to a revision in minimum wages, which impacted employee costs. Going ahead, it is expected to benefit from favorable base and an improvement in demand dynamics in the country.

Key Data

Nifty	25,220
Equity / FV	Rs 642mn / Rs 2
Market Cap	Rs 110bn
	USD 1.3bn
52-Week High/Low	Rs 401/ 284
Avg. Volume (no)	9,44,981
Bloom Code	SAPPHIRE IN

	Current	Previous
Rating	SELL	Reduce
Target Price	309	316

Change in Estimates

(Rs.bn)	Current FY26E	Current FY27E	Chg (%)bps FY26E	Chg (%)bps FY27E
Revenue	32	37	0.0	0.0
EBITDA	5	6	(5.2)	(4.8)
EBITDA (%)	15.8	17.1	(86)	(86)
APAT	0	1	(58.3)	(24.3)
EPS (Rs)	0.5	2.3	(58.3)	(24.3)

Valuation (x)

	FY25A	FY26E	FY27E
P/E	317.3	728.1	146.0
EV/EBITDA	22.6	20.2	16.1
ROE (%)	1.4	1.1	5.2
RoACE (%)	11.2	10.4	15.0

Q1FY26 Result (Rs Mn)

Particulars	Q1FY26	YoY (%)	QoQ (%)
Revenue	7,768	8.1	9.2
Total Expense	6,640	11.8	9.7
EBITDA	1,129	(9.1)	6.2
Depreciation	920	1.8	8.2
EBIT	209	(38.2)	(1.7)
Other Income	68	28.8	(47.7)
Interest	295	8.3	(0.8)
EBT	(18)	NA	NA
Tax	(1)	NA	NA
RPAT	(17)	NA	NA
APAT	(17)	NA	NA
		(bps)	(bps)
Gross Margin	67.4	(120)	(76)
EBITDA (%)	14.5	(276)	(41)
NPM (%)	(0.2)	NA	NA
Tax Rate (%)	5.7	NA	NA
EBIT (%)	2.7	(202)	(30)

Director Research: **Sachin Bobade**
 +91 22 40969731

sachinb@dolatcapital.com

Associate: **Akshay Patel**
 +9122 40969753

akshayp@dolatcapital.com

Associate: **Swapnil Lokagariwar**
 +9122 61764822

swapnil@dolatcapital.com

Exhibit 1: Actual V/s Estimates

Particulars (Rs mn)	Actual	Estimates	Variance (%)	Comments
Revenue	7,768	7,828	(0.8)	SSSG in PH was lower than estimate
EBITDA	1,129	1,156	(2.4)	Operational expenses were higher than estimate
EBITDA margin %	14.5	14.8	(20bps)	
APAT	(17)	95	(118.2)	

Source: Company, Dolat Capital

Exhibit 2: Change in estimates

Particulars (Rs mn)	FY26E			FY27E		
	New	Old	Chg. (%)	New	Old	Chg. (%)
Revenue	32,493	32,493	0.0	36,734	36,734	0.0
EBITDA	5,128	5,408	(5.2)	6,291	6,608	(4.8)
EBITDA margin (%)	15.8	16.6	(90bps)	17.1	18.0	(90bps)
PAT	151	361	(58.3)	751	992	(24.3)
EPS (Rs)	0.5	1.1	(58.3)	2.3	3.1	(24.3)

Source: Company DART * Note – Difference in PAT and EPS is due to stock split

We have maintained our FY26/27E revenue estimates as Q1 performance was in line. However, we have lowered our FY26/27E EBITDA margin estimates, as a delay in PH SSSG recovery would result in lower operating efficiencies. Variation in APAT is due to a very low base.

Exhibit 3: Q1FY26 Performance

Particulars (Rs.mn)	Q1FY26	Q1FY25	YoY (%)	Q4FY25	QoQ (%)
Net Revenue	7,768	7,183	8.1	7,113	9.2
Total Expenditure	6,640	5,941	11.8	6,051	9.7
RM Cost	2,533	2,256	12.3	2,266	11.8
Employee Expenses	1,023	949	7.8	977	4.7
Other Expenses	3,083	2,736	12.7	2,808	9.8
PBIDT (Excl OI)	1,129	1,242	(9.1)	1,062	6.2
Other Income	68	53	28.8	130	(47.7)
Depreciation	920	904	1.8	850	8.2
EBIT	277	391	(29.2)	342	(19.1)
Interest	295	273	8.3	298	(0.8)
PBT	(18)	118	NA	84	NA
Tax	(1)	36	NA	(14)	NA
Profit After Tax (Reported)	(17)	82	NA	98	NA
Adj Net Profit	(17)	82	NA	59	NA
EPS (adjusted)	(0.1)	1.3	NA	0.1	NA
	bps			bps	
Gross Profit (%)	67.4	68.6	(120)	68.2	(80)
Employee Expenses (%)	13.2	13.2	-	13.7	(60)
Other Expenses (%)	39.7	38.1	160	39.5	20
EBITDA (%)	14.5	17.3	(280)	14.9	(40)
PAT (%)	(0.2)	1.1	NA	1.4	NA
PAT (%) Adj	(0.2)	1.1	NA	0.8	NA

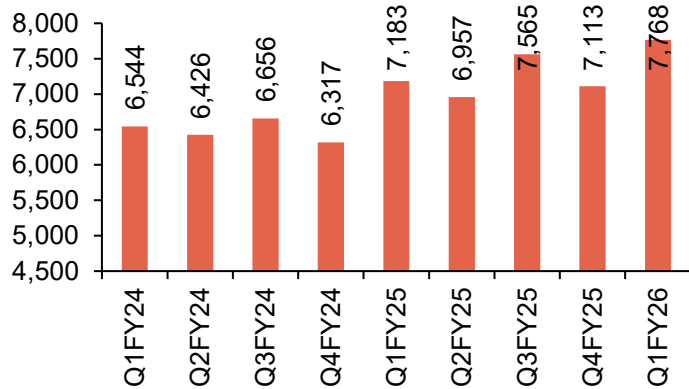
Source: Company, Dolat Capital

Earning call KTAs

- **SAPPHIRE's revenue (consol) grew by 8.1% YoY to Rs. 7.8 bn** led by double-digit revenue growth in KFC India and Pizza Hut Sri Lanka. However, overall SSSG remained subdued for the quarter, with Pizza Hut India recording an 8% YoY decline in SSSG. Going forward, the company is expected to deliver improved performance led by strategic investments in marketing and value offering across brands, resulting in SSSG and SSTG growth.
- **Despite subdued consumer demand, KFC's revenue grew by ~10.6%** led by value offerings and new product launches. While SSSG remained flattish YoY and witnessed sequential improvement. However, SSTG was positive with low single-digit growth led by traction in transactions due to investments made in EPIC Core variety X value campaign and offers.
- **KFC's restaurant EBITDA margin de-grew by 310bps YoY to 15.7%** due to operating deleverage, lower GM and higher delivery mix. Further, margins were impacted on account of investments in value offers and promotions. Moreover, the company was able to mitigate some of the inflationary pressures through its cost-saving initiatives.
- **Recently launched Epic core variety X value campaign and KFC Gold Burgers** witnessed robust traction led by "9 for 299" Epic savers. Furthermore, the company has launched products like Zinger Burger and chicken strips. Going ahead, the company plans to intensify its focus on value offerings through campaigns featuring products priced below Rs 100.
- **Pizza Hut revenue de-grew by 5.5% due to 8% decline in SSSG** (1% in Q4FY25). Further, Pizza Hut reported a slight sequential improvement in ADS to Rs 44k led by traction in value offerings. GM contracted 150 bps YoY due to increased value and promotional offerings and marginal impact from inflation, resulting in a negative restaurant EBITDA margin of 2.5%.
- **In April'25, the company launched its refreshed core "Juicylicious" pizza range**, which has received strong positive feedback from consumers according to market research. Additionally, in Tamil Nadu, both Sapphire and Yum brands alluded that the "Juicylicious" range witnessed positive SSSG and SSTG in the region, driven by mass media advertising campaigns. Moreover, the company also introduced the "Pizza Hut Café" with new product launches like the "Summer Sipper" range starting at Rs 99.
- **Sri Lanka's revenue grew by 15/19% in LKR/INR terms**, led by 12% SSSG and double-digit SSSTG growth. However, the company witnessed a contraction in margins due to minimum wage revision in the country. To mitigate wage inflation, it has taken 3-5% price hikes in the region, aiding sequential improvement in margin in Q2FY26.
- **Sapphire added 12 new stores across KFC India/ PH India/ Sri Lanka business during Q1FY26**, taking the total store count to 974. Going ahead, the company aspires to add 60-80 KFC stores annually, while adopting a cautious approach to store expansion for Pizza Hut.
- **During Q1FY26, the channel mix of Delivery/Takeaway/Dine-in for KFC** stands at 43/21/36% respectively, whereas for Pizza Hut India it stands at 50/16/34% respectively and for Sri Lanka it stood at 39/35/26% respectively.

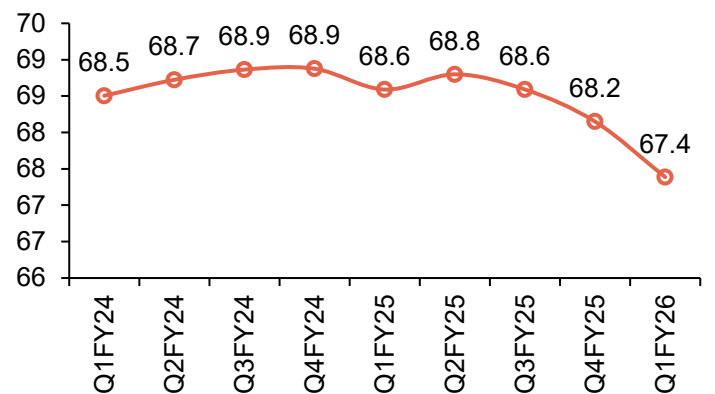
Story in Charts

Exhibit 4: Revenue Trend (Rs mn)



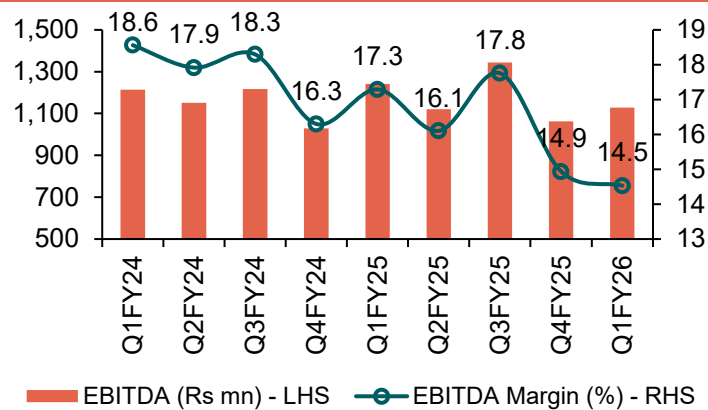
Source: Company, Dolat Capital

Exhibit 5: Gross Margin Trajectory (%)



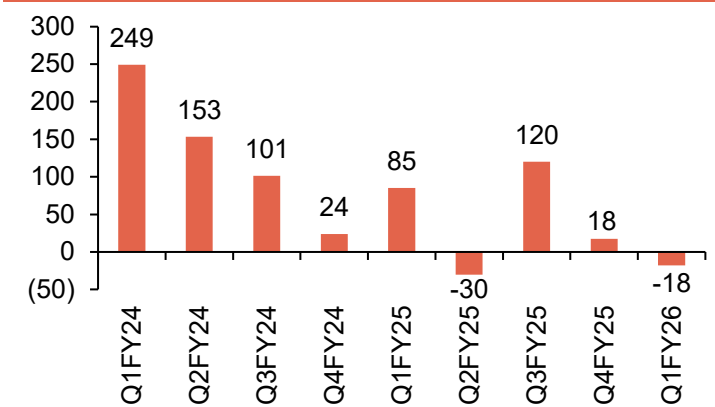
Source: Company, Dolat Capital

Exhibit 6: EBITDA and EBITDA Margin Trends



Source: Company, Dolat Capital

Exhibit 7: Reported PAT Trends



Source: Company, Dolat Capital

Financial Performance

Profit and Loss Account

(Rs Mn)	FY24A	FY25A	FY26E	FY27E
Revenue	25,943	28,819	32,493	36,734
Total Expense	21,330	24,051	27,364	30,442
COGS	8,109	9,068	10,251	11,431
Employees Cost	3,456	3,864	4,471	4,734
Other expenses	9,765	11,119	12,642	14,277
EBIDTA	4,613	4,768	5,128	6,291
Depreciation	3,239	3,639	4,066	4,384
EBIT	1,374	1,128	1,062	1,907
Interest	1,009	1,116	1,224	1,285
Other Income	334	372	350	358
Exc. / E.O. items	0	(153)	0	0
EBT	699	231	188	980
Tax	180	64	45	235
Minority Interest	(9)	(25)	(7)	(6)
Profit/Loss share of associates	0	0	0	0
RPAT	528	193	151	751
Adjustments	0	153	0	0
APAT	528	345	151	751

Balance Sheet

(Rs Mn)	FY24A	FY25A	FY26E	FY27E
Sources of Funds				
Equity Capital	637	642	642	642
Minority Interest	7	(19)	(26)	(32)
Reserves & Surplus	12,754	13,338	13,482	14,227
Net Worth	13,391	13,981	14,124	14,869
Total Debt	278	199	211	197
Other Long term liabilities	10,393	11,785	11,835	11,890
Net Deferred Tax Liability	(1,094)	(1,098)	(1,098)	(1,098)
Total Capital Employed	22,974	24,848	25,047	25,826

Applications of Funds

Net Block	21,784	23,392	22,214	20,718
CWIP	673	558	558	558
Investments	0	0	0	0
Current Assets, Loans & Advances	4,814	5,345	9,578	12,668
Current Investments	0	1,437	1,457	1,477
Inventories	969	956	1,220	1,376
Receivables	344	366	246	278
Cash and Bank Balances	1,676	783	4,624	7,269
Loans and Advances	474	457	505	554
Other Current Assets	1,352	1,347	1,526	1,716
Less: Current Liabilities & Provisions	4,298	4,447	7,304	8,118
Payables	2,308	2,425	2,740	3,096
Other Current Liabilities	1,989	2,022	4,564	5,022
sub total				
<i>Net Current Assets</i>	<i>517</i>	<i>898</i>	<i>2,274</i>	<i>4,550</i>
Total Assets	22,974	24,848	25,047	25,826

E – Estimates

Important Ratios

Particulars	FY24A	FY25A	FY26E	FY27E
(A) Margins (%)				
Gross Profit Margin	68.7	68.5	68.5	68.9
EBIDTA Margin	17.8	16.5	15.8	17.1
EBIT Margin	5.3	3.9	3.3	5.2
Tax rate	25.7	27.8	23.8	24.0
Net Profit Margin	2.0	0.7	0.5	2.0
(B) As Percentage of Net Sales (%)				
COGS	31.3	31.5	31.5	31.1
Employee	13.3	13.4	13.8	12.9
Other	37.6	38.6	38.9	38.9
(C) Measure of Financial Status				
Gross Debt / Equity	0.0	0.0	0.0	0.0
Interest Coverage	0.0	0.0	0.0	0.0
Inventory days	14	12	14	14
Debtors days	5	5	3	3
Average Cost of Debt	0.0	0.0	0.0	0.0
Payable days	32	31	31	31
Working Capital days	7	11	26	45
FA T/O	1.2	1.2	1.5	1.8
(D) Measures of Investment				
AEPS (Rs)	1.7	1.1	0.5	2.4
CEPS (Rs)	11.8	12.5	13.2	16.1
DPS (Rs)	0.0	0.0	0.0	0.0
Dividend Payout (%)	0.0	0.0	0.0	0.0
BVPS (Rs)	42.0	43.9	44.3	46.7
RoANW (%)	4.1	1.4	1.1	5.2
RoACE (%)	12.5	11.2	10.4	15.0
RoAIC (%)	13.4	9.7	10.2	25.0
(E) Valuation Ratios				
CMP (Rs)	344	344	344	344
Mcap (Rs Mn)	1,09,628	1,09,628	1,09,628	1,09,628
EV	1,08,230	1,07,607	1,03,758	1,01,079
MCap/ Sales	4.2	3.8	3.4	3.0
EV/Sales	4.2	3.7	3.2	2.8
P/E	207.6	317.3	728.1	146.0
EV/EBITDA	23.5	22.6	20.2	16.1
P/BV	8.2	7.8	7.8	7.4
Dividend Yield (%)	0.0	0.0	0.0	0.0
(F) Growth Rate (%)				
Revenue	14.5	11.1	12.7	13.1
EBITDA	7.7	3.4	7.6	22.7
EBIT	(16.3)	(17.9)	(5.8)	79.5
PBT	(35.5)	(66.9)	(18.5)	419.8
APAT	(77.4)	(34.6)	(56.4)	398.7
EPS	(77.4)	(34.6)	(56.4)	398.7

E – Estimates * FY24 is calculated with face value of Rs. 10, whereas FY25 to FY27 is calculated with face value of Rs. 2.

Cash Flow

Particulars	FY24A	FY25A	FY26E	FY27E
Profit before tax	699	384	188	980
Depreciation & w.o.	3,239	3,639	4,066	4,384
Net Interest Exp	0	0	0	0
Direct taxes paid	(20)	(42)	(45)	(235)
Change in Working Capital	(317)	187	2,535	444
Non Cash	232	(215)	(7)	(6)
(A) CF from Operating Activities	3,833	3,953	6,738	5,566
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	(3,850)	(2,631)	(2,888)	(2,888)
Free Cash Flow	(17)	1,322	3,849	2,678
(Inc.)/ Dec. in Investments	691	(1,350)	(20)	(20)
Other	0	0	0	0
(B) CF from Investing Activities	(3,158)	(3,980)	(2,908)	(2,908)
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(1,203)	(1,216)	12	(14)
Interest exp net	0	0	0	0
Dividend Paid (Incl. Tax)	0	0	0	0
Other	0	351	0	0
(C) CF from Financing	(1,203)	(865)	12	(14)
Net Change in Cash	(528)	(893)	3,842	2,645
Opening Cash balances	2,204	1,676	783	4,624
Closing Cash balances	1,676	783	4,624	7,269

E – Estimates

Notes

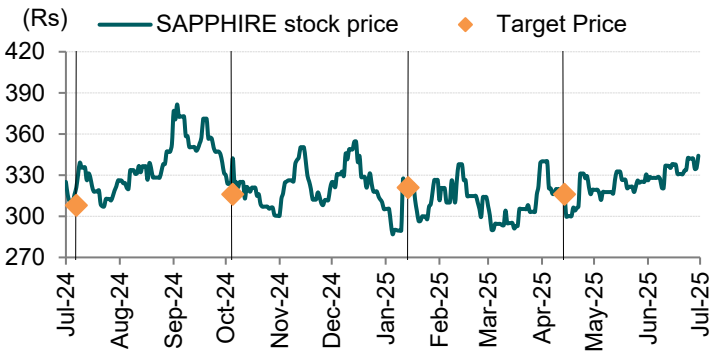
Stock Info and Rating History

Price Performance

Particulars	1M	3M	12M
Absolute (%)	4	2	10
Rel to NIFTY (%)	3	(2)	7

Shareholding Pattern

Particulars	Dec'24	Mar'25	Jun'25
Promoters	26.1	26.1	26.1
MF/Banks/FIs	38.3	38.5	37.9
FIIIs	30.7	30.4	31.6
Public / Others	4.9	5.0	4.5



Month	Rating	TP (Rs.)	Price (Rs.)
Jul-24	SELL	308	321
Oct-24	SELL	316	342
Feb-25	Reduce	321	318
May-25	Reduce	316	315

*Price as on recommendation date

Notes

Dolat Rating Matrix

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Dolat Team

Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745
--------------------------	-------------------------	------------------------------	------------------------

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	Director - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kapil Yadav	Director - Equity Sales & Corporate Access	kapil@dolatcapital.com	+9122 4096 9735
Jubbin Shah	Director - Equity Sales	jubbins@dolatcapital.com	+9122 4096 9779
Pratik Shroff	AVP - Equity Sales	pratiks@dolatcapital.com	+9122 4096 9621
Rajeev Lala	AVP - Equity Sales	rajeevl@dolatcapital.com	+9122 4096 9767
Equity Trading	Designation	E-mail	
P. Sridhar	Director and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	Director - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	Director - Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Director - Sales Trading	kartikm@dolatcapital.com	+9122 4096 9715
Nishit Sariya	VP - Derivatives Sales Trading	nishits@dolatcapital.com	+9122 4096 9765
Monali Jobanputra	Co - Head Asia Derivatives	monalij@dolatcapital.com	+9122 6176 4841
Bhavin Mehta	Director Research - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)

II. Disclaimer:

This research report has been prepared by Dolat Capital Market Private Limited, to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited, and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited, and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited, and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited, may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited, does not warrant its accuracy or completeness. Dolat Capital Market Private Limited, may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited, reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited, and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited, and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. persons only: This research report is a product of Dolat Capital Market Private Limited, under Marco Polo Securities 15a-6 chaperone service, which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

Research reports are intended for distribution only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a-6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person, which is not the Major Institutional Investor. In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited has entered into a chaperoning agreement with a U.S. registered broker-dealer, Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be affected through Marco Polo or another U.S. registered broker dealer.



Dolat Capital Market Private Limited.

Corporate Identity Number: U65990GJ993PTC116741

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INZ000274132, NSE - INZ000274132, Research: INH000014012

Regd. office: 1401-1409, Dalal Street Commercial, Block 53 (Bldg. No.53E) Zone-5, Road-5E, Gift City, Sector 9, Gandhinagar-382355 Gujarat, India.

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
