

BUY
 TP: Rs 236 | ▲ 35%

SAPPHIRE FOODS

Consumer Discretionary

28 April 2026

Improving Trends

- Despite LPG-related disruptions, the company delivered strong performance with minimal store closures and resilient operations
- Q4 price hikes for KFC were in the range of 1.5% to 2%, with similar approximately 2% price hikes for Pizza Hut in April
- DIL-Sapphire merger is anticipated to be completed by FY27E. BUY rating, based on DCF with TP of 236

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Result Highlights: Sapphire Foods posted revenue growth of 11% YoY at Rs 7,922 mn, driven by strong performance in KFC India, which grew 15% YoY (the highest in last 8 quarters). while Pizza Hut India declined 6% YoY, reflecting continued weakness in the segment. Sri Lanka continued its strong momentum, delivering 15% YoY growth (in LKR terms) and maintaining leadership in the QSR market. KFC SSSG improved to 4% (6% ex-Navratri impact, the highest in 14 quarters), indicating recovery in demand on the back of value-led consumer recruitment strategies. However, Pizza Hut reported SSSG of -7%, highlighting persistent demand challenges. Sri Lanka delivered double-digit SSSG of 11% (LKR terms). EBITDA grew 17% YoY to Rs 1,245 mn, with EBITDA margin at 15.7% (78 bps YoY), impacted by inflationary pressures and operating costs. Despite LPG availability challenges, Sapphire maintained zero KFC closures and limited Pizza Hut closures (<5% in March, improving to <3% in April). During the quarter, the company added 24 net restaurants (19 KFC, 2 Pizza Hut in India, and 3 Pizza Hut in Sri Lanka), taking the total store count to 1,052 restaurants as of Mar 31, 2026.

KFC drives recovery; Sri Lanka remains strong: KFC India showed strong recovery with SSSG at 4% (6% underlying), supported by a two-pronged value strategy 1) Rs 99 entry-level meal driving penetration in North & West 2) Disruptive value (BOGO offers) in mature Southern markets. Sri Lanka continued to outperform with 6th consecutive quarter of double-digit SSSG (11%) and 15% revenue growth, supported by strong value positioning and innovation. However, margins remained under pressure (~14.6%, -20 bps YoY) owing to the wage inflation and macro challenges in Sri Lanka.

Our view: DIL-Sapphire's joint remains a key strategic lever, which is expected to drive cost efficiencies, synergy benefits and support Pizza Hut's recovery. While near-term inflation remains a watchpoint, improving demand and operating leverage should aid gradual margin expansion. We see this move very positive and further expect Revenue/EBITDA to grow at 11.7%/15.6% CAGR over FY26-28E resp. We recommend BUY, based on DCF with TP of Rs 236.

Key changes

Target	Rating
▼	◀ ▶

Ticker/Price	SAPPHIRE IN/Rs 174
Market cap	US\$ 592.5mn
Free float	74%
3M ADV	US\$ 2.0mn
52wk high/low	Rs 368/Rs 140
Promoter/FPI/DII	26%/29%/38%

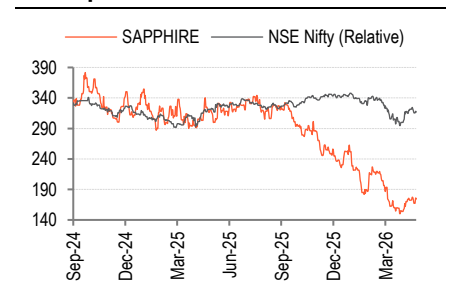
Source: NSE | Price as of 28 Apr 2026

Key financials

Y/E 31 Mar	FY26A	FY27E	FY28E
Total revenue (Rs mn)	31,253	34,766	39,068
EBITDA (Rs mn)	4,736	5,632	6,485
Adj. net profit (Rs mn)	(80)	364	713
Adj. EPS (Rs)	(1.0)	1.1	2.2
Consensus EPS (Rs)	(1.0)	1.2	2.5
Adj. ROAE (%)	(2.3)	2.5	4.8
Adj. P/E (x)	NA	154.1	78.6
EV/EBITDA (x)	11.8	9.9	8.6
Adj. EPS growth (%)	NA	NA	NA

Source: Company, Bloomberg, BOBCAPS Research

Stock performance



Source: NSE



Earnings Call KTAs

Overall Performance

Sapphire Foods reported a strong recovery in Q4FY26, marking its best quarter in the last 12 quarters in terms of SSSG and Adj. EBITDA growth. Revenues grew 11% YoY to Rs 7.9 bn, led by strong KFC performance and continued momentum in Sri Lanka, while Pizza Hut India remained weak. Profitability improved sequentially, with Adj. EBITDA growing by 20% YoY. However, overall EBITDA margins remained slightly lower YoY due to inflationary pressures and higher investments. During the quarter, KFC and Pizza Hut implemented price hikes of 1.5-2%. Management highlighted that demand for the environment improved in Q4, supported by internal execution, and trends have continued into April. Further, merger with Devyani International is anticipated to be completed by the end of FY27E, following regulatory approvals and is expected to drive synergies, scale benefits, and unified brand strategy, especially aiding Pizza Hut turnaround.

Costs and Margins

Sapphire Foods incurred Rs6.2 crores due to New Labour Codes and Rs6.6 crores for ESOP modification aimed at employee retention, categorised as exceptional items in Q4FY26. Margins improved sequentially, supported by gross margin expansion and operating leverage; particularly in KFC. Restaurant EBITDA margin expanded 100 bps YoY to 13%, while KFC margins improved 110 bps YoY to 16.8%. However, overall EBITDA margin declined 20 bps YoY to 15.8%, impacted by inflationary pressures (notably LPG costs), higher marketing spends (75–100 bps incremental), and operating deleverage in Pizza Hut. Further, 25-40% hike in LPG prices could impact EBITDA by 30-50 bps; though this is considered less material than keeping the stores open.

KFC India

KFC India delivered a strong quarter with revenue growth of 15% YoY (the highest in 8 quarters) and SSSG of 4% (6% ex-Navratri, highest in 14 quarters). Growth was driven by a two-pronged consumer recruitment strategy 1) 99 entry-level meal in North & West markets and 2) Disruptive BOGO value in South markets. This strategy, along with increased marketing investments, has started yielding results after multiple pilots over the past 1–1.5 years. Gross margins improved (~70 bps YoY), supporting Restaurant EBITDA margin expansion to 16.8%. KFC launched two significant innovations: "*Dunked*," a global saucy concept, and "*KFC shawarma*," both performing well. Management remains confident of the SSSG momentum being sustainable, with April trends indicating similar performance. Going forward, focus stays on driving transactions and SSSG over near-term margins, with the expectation of a gradual margin recovery as growth sustains.

Pizza Hut India

Pizza Hut India performance remained weak with a 6% YoY decline in revenue and SSSG of -7%, reflecting continued pressure on discretionary demand. Restaurant EBITDA stood at ~6%, impacted by operating deleverage despite some gross margin improvement (~40 bps YoY). Management highlighted that Tamil Nadu continues to outperform with double-digit SSSG and EBITDA improvement, serving as a key

playbook (dine-in led strategy) for the brand. Management believes that there is a significant market share opportunity for Pizza Hut, particularly in Tamil Nadu, which serves as a playbook for growth. Expansion remains cautious, with focus on improving unit economics and rationalising underperforming stores.

Sri Lanka Business

Sri Lanka continued to deliver strong and consistent performance, with 15% revenue growth (LKR) and SSSG of 11%, marking the 6th consecutive quarter of double-digit SSSG. Growth was driven by strong value positioning, controlled pricing strategy, and product innovation. Restaurant EBITDA stood at 14.6% (-20 bps YoY), impacted by minimum wage hikes and inflationary pressures, although gross margins improved significantly (~290 bps YoY). In Sri Lanka, despite macro volatility and 90-95% inflation over 18 months, price increases were restricted to 50%, making products more affordable and driving double-digit SSSG. Moreover, innovations such as "melts" have helped drive double-digit SSSG, receiving sustained support unlike in India. Management remains positive, expecting continued strong growth and accelerated store expansion (high single-digit to low double-digit additions annually).

Store Expansion

During Q4FY26, Sapphire Foods added 24 net restaurants, including 19 KFC, 2 Pizza Hut (India), and 3 Pizza Hut (Sri Lanka) outlets, taking the total store count to 1,052 restaurants as of March 2026. For FY26, the company added 89 net stores, with continued focus on KFC expansion (60–80 stores annually), while Pizza Hut expansion remains selective. Capex continues to be elevated (~Rs 320 cr for FY26), driven by new stores, refurbishments, and renewal fees, with similar levels expected in FY27.

Channel Mix

Channel mix remained stable, with dine-in and takeaway contributing ~57% of sales, supported by value campaigns targeted specifically at these channels. Delivery contribution remained broadly stable (~43%). Management highlighted that dine-in and takeaway recovery are a key positive, with reduced gap vs delivery performance. Additionally, own delivery channels continue to outperform aggregators, indicating improving direct customer engagement and better unit economics.

Fig 1 – New Innovations (KFC)



Source: Company, BOBCAPS Research

Fig 2 – New Innovations (Pizza Hut)



Source: Company, BOBCAPS Research

Fig 3 – Quarterly Table

Consolidated (mn)	Q4FY26	Q3FY26	QoQ (%)	Q4FY25	YoY (%)	FY26	FY25	YoY (%)
Total Revenues	7,922	8,138	(2.7)	7,113	11.4	31,253	28,819	8.4
COGS	2,474	2,550	(3)	2,266	9.2	9,951	9,068	10
as % of sales	31.2	31.3	(10bps)	31.8	(62bps)	31.8	31.5	37bps
Gross Profit	5,448	5,589	(3)	4,848	12.4	21,302	19,750	8
Gross margin (%)	68.8	68.7	10bps	68.2	62bps	68.2	68.5	(37bps)
Employee costs	1,109	1,090	2	977	13.4	4,279	3,864	11
as % of sales	14.0	13.4	60bps	13.7	26bps	13.7	13.4	28bps
Other expenses	3,095	3,156	(2)	2,808	10.2	12,286	11,119	11
as % of sales	0.4	0.4	0bps	0.4	0bps	39.3	38.6	73bps
EBITDA	1,245	1,342	(7)	1,062	17.2	4,736	4,768	(1)
EBITDA margin (%)	15.7	16.5	(78bps)	14.9	78bps	15.2	16.5	(139bps)
D&A	1,010	1,020	(1)	850	18.9	3,921	3,639	8
Interest cost	311	315	(1)	298	4.6	1,228	1,116	10
PBT	(27)	78	(134)	45	(160.0)	(133)	384	(135)
Tax	(29)	15	(297)	(14)	101.7	(53)	64	(182)
Reported PAT	1.7	64	(97)	59	(97.0)	(320)	167	(291)
PAT margin	0.02	0.78	(76bps)	0.83	(81bps)	(1.02)	0.58	(160bps)

Source: Company, BOBCAPS Research

Fig 4 – Key operating metrics (KFC)

KFC	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26
Store Count	429	442	461	496	502	510	529	556	575
Store addition	23	13	19	35	6	8	19	27	19
SSSG (%)	(3.0)	(6.0)	(8.0)	(3.0)	(1.0)	0.0	(3.0)	1.0	4.0
Restaurant related revenue (INR mn)	4,285	4,770	4,527	4,948	4,793	5,275	4,856	5,509	5,495
% growth YoY	16.1	11.3	8.7	11.9	11.9	10.6	7.3	11.3	14.6
ADS (INR '000)	114	122	111	115	108	116	103	112	109
Gross Margin (%)	68.3	68.2	68.3	68.2	68.0	67.1	67.2	68.6	68.7
Restaurant EBITDA (%)	18.7	18.8	16.5	18.2	15.7	15.7	13.8	18.8	16.8

Source: Company, BOBCAPS Research

Fig 5 – Key operating metrics (Pizza Hut)

Pizza Hut	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26
Store Count	319	320	323	339	334	336	338	339	341
Store addition	-	1	3	16	(5)	2	2	1	2
SSSG (%)	(15.0)	(7.0)	(3.0)	5.0	1.0	(8.0)	(8.0)	(12.0)	(7.0)
Restaurant related revenue (INR mn)	1,188	1,397	1,376	1,430	1,248	1,320	1,296	1,275	1,174
% growth YoY	(2.7)	2.6	3.5	9.6	5.1	(5.5)	(5.8)	(10.8)	(5.9)
ADS (INR '000)	41	48	47	48	42	44	42	41	39
Gross Margin (%)	75.5	76.1	76.5	75.6	74.8	74.6	74.4	74.9	75.2
Restaurant EBITDA (%)	(2.7)	4.6	4.1	4.7	(4.6)	(2.5)	(1.8)	(3.1)	(6.0)

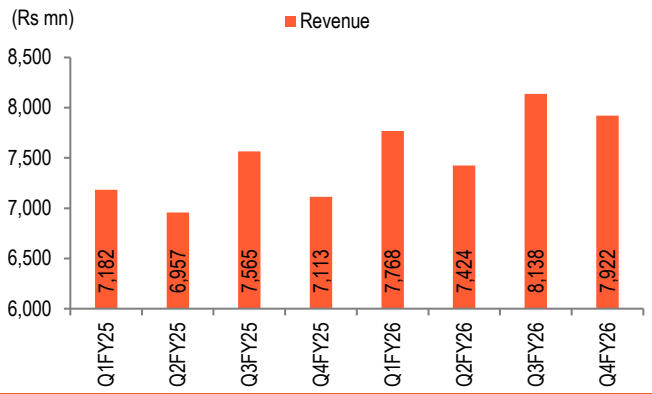
Source: Company, BOBCAPS Research

Fig 6 – Key operating metrics (Sri Lanka)

Sri Lanka	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26	Q4FY26
Store Count	124	124	125	126	127	128	130	133	136
Store addition	(1)	-	1	1	1	1	2	3	3
SSSG (%)	4.0	11.0	9.0	14.0	16.0	12.0	15.4	11.0	11.0
Restaurant related revenue (INR mn)	816	978	1,024	1,159	1,066	1,164	1,264	1,342	1,237
% growth YoY	22.3	18.5	18.5	29.9	30.6	19.0	23.4	15.8	16.0
ADS (INR '000)	75	89	93	103	95	103	109	114	104
Gross Margin (%)	61.9	60.6	61.1	62.1	60.6	60.9	63.3	63.7	63.5
Restaurant EBITDA (%)	12.3	13.2	15.5	17.8	14.8	12.7	14.0	16.7	14.6

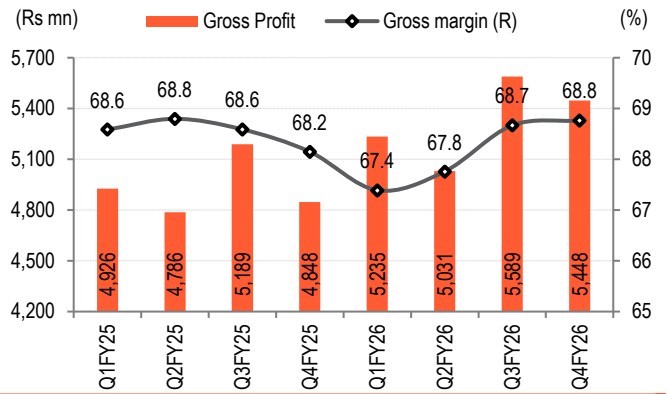
Source: Company, BOBCAPS Research

Fig 7 – Trend in revenue



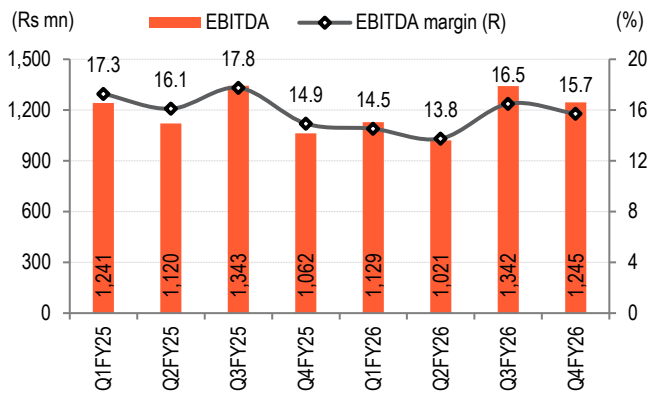
Source: Company, BOBCAPS Research

Fig 8 – Gross Profit & its margins



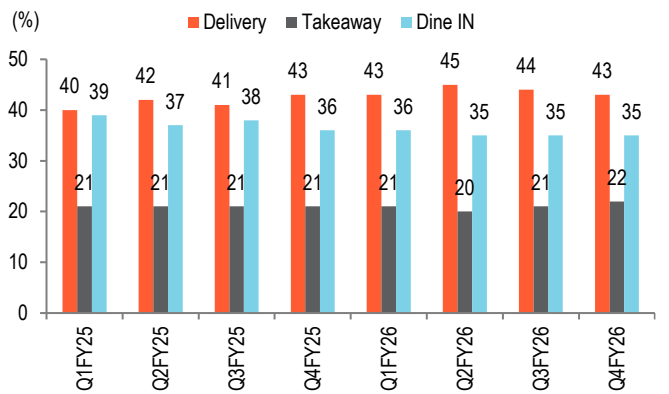
Source: Company, BOBCAPS Research

Fig 9 – EBITDA and its margins



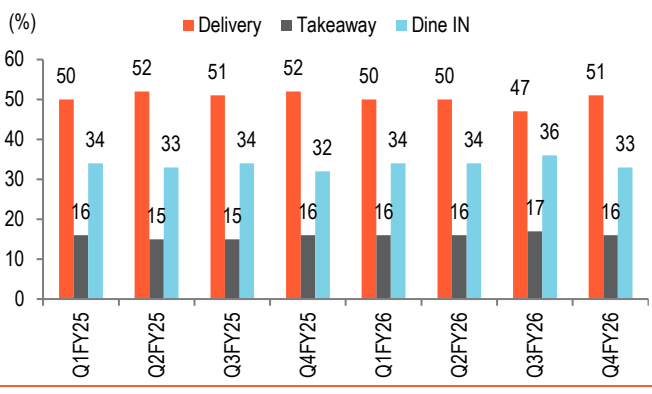
Source: Company, BOBCAPS Research

Fig 10 – Sales channel mix: KFC



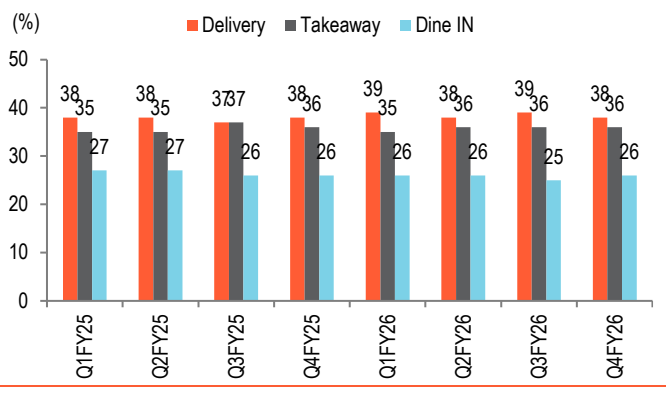
Source: Company, BOBCAPS Research

Fig 11 – Sales channel mix: Pizza Hut



Source: Company, BOBCAPS Research

Fig 12 – Sales channel mix: Sri Lanka



Source: Company, BOBCAPS Research

Valuation Methodology

DIL-Sapphire's joint remains a key strategic lever, expected to drive cost efficiencies, synergy benefits and support Pizza Hut's recovery. While near-term inflation remains a watchpoint, improving demand and operating leverage should aid gradual margin expansion. We see this move very positive and further expect Revenue/EBITDA to grow at 11.7%/15.6% CAGR over FY26-28E resp. We recommend BUY, based on DCF with TP of Rs 236.

Fig 13 – Revised estimates

(Rs mn)	New			Old			Change (%)		
	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E	FY27E	FY28E	FY29E
Sales	34,766	39,068	43,546	35,477	40,081	NA	(2.0)	(2.5)	NA
EBITDA	5,632	6,485	7,316	5,960	7,054	NA	(5.5)	(8.1)	NA
EBITDA Margin (%)	16.2	16.6	16.8	16.8	17.6	Na	(60bps)	(100bps)	NA
Adj. PAT	364	713	957	646	1108	Na	(43.72)	(35.65)	NA

Source: BOBCAPS Research

Fig 14 – Actual vs Estimates

(Rs mn)	Q4FY26A	Q4FY26E	Deviation (%)
Revenue	7,922.2	7,995	(0.90)
EBITDA	1,244.6	1,269	(1.96)
EBITDA Margin (%)	15.7	15.88	(17bps)
PAT	1.7	51	(96.60)

Source: Company, BOBCAPS Research

Key risks

Key downside risks to our estimates:

- Weaker-than-expected SSSG
- Unabated inflation can hurt margins
- Lower-than-expected execution efficiency

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Total revenue	28,819	31,253	34,766	39,068	43,546
EBITDA	4,768	4,736	5,632	6,485	7,316
Depreciation	3,639	3,921	4,118	4,339	4,671
EBIT	1,128	815	1,514	2,146	2,645
Net interest inc./(exp.)	1,116	1,228	1,321	1,485	1,655
Other inc./(exp.)	372	280	292	289	286
Exceptional items	153	240	0	0	0
EBT	384	(133)	485	951	1,276
Income taxes	64	(53)	121	238	319
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	(19)	(21)	(21)	(21)	(21)
Reported net profit	167	0	0	0	0
Adjustments	153	240	0	0	0
Adjusted net profit	14	(80)	364	713	957

Balance Sheet

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Accounts payables	2,425	2,836	3,429	3,853	4,295
Other current liabilities	800	1,155	1,155	1,155	1,155
Provisions	67	88	96	106	117
Debt funds	11,766	12,932	12,932	12,932	12,932
Other liabilities	11,785	13,284	13,284	13,284	13,284
Equity capital	642	643	643	643	643
Reserves & surplus	13,338	13,263	13,627	14,340	15,297
Shareholders' fund	13,981	13,906	14,270	14,983	15,940
Total liab. and equities	25,946	27,225	27,589	28,302	29,259
Cash and cash eq.	583	681	3,517	6,793	10,641
Accounts receivables	366	350	286	321	358
Inventories	956	1,123	1,334	1,498	1,670
Other current assets	229	196	216	238	261
Investments	1,437	31	31	31	31
Net fixed assets	12,456	13,732	11,564	9,070	6,245
CWIP	558	595	595	595	595
Intangible assets	10,185	10,948	8,780	6,286	3,460
Deferred tax assets, net	1,115	1,273	1,273	1,273	1,273
Other assets	1,118	1,608	1,638	1,671	1,705
Total assets	25,946	27,225	27,589	28,302	29,259

Cash Flows

Y/E 31 Mar (Rs mn)	FY25A	FY26A	FY27E	FY28E	FY29E
Cash flow from operations	5,080	5,061	6,107	6,606	7,347
Capital expenditures	(2,649)	(3,197)	(1,950)	(1,845)	(1,845)
Change in investments	(1,350)	1,452	0	0	0
Other investing cash flows	630	(586)	0	0	0
Cash flow from investing	(3,368)	(2,331)	(1,950)	(1,845)	(1,845)
Equities issued/Others	227	0	0	0	0
Debt raised/repaid	(79)	(102)	0	0	0
Interest expenses	(2,253)	(2,500)	(1,321)	(1,485)	(1,655)
Dividends paid	0	0	0	0	0
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,106)	(2,601)	(1,321)	(1,485)	(1,655)
Chg in cash & cash eq.	0	0	0	0	0
Closing cash & cash eq.	583	681	3,517	6,793	10,641

Per Share

Y/E 31 Mar (Rs)	FY25A	FY26A	FY27E	FY28E	FY29E
Reported EPS	0.6	(1.0)	1.1	2.2	3.0
Adjusted EPS	0.0	(1.0)	1.1	2.2	3.0
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	43.5	43.3	44.4	46.6	49.6

Valuations Ratios

Y/E 31 Mar (x)	FY25A	FY26A	FY27E	FY28E	FY29E
EV/Sales	1.9	1.8	1.6	1.4	1.3
EV/EBITDA	11.8	11.8	9.9	8.6	7.7
Adjusted P/E	NA	NA	NA	78.6	58.5
P/BV	4.0	4.0	3.9	3.7	3.5

DuPont Analysis

Y/E 31 Mar (%)	FY25A	FY26A	FY27E	FY28E	FY29E
Tax burden (Net profit/PBT)	43.5	240.2	75.0	75.0	75.0
Interest burden (PBT/EBIT)	34.1	(16.3)	32.0	44.3	48.2
EBIT margin (EBIT/Revenue)	3.9	2.6	4.4	5.5	6.1
Asset turnover (Rev./Avg TA)	111.1	114.8	126.0	138.0	148.8
Leverage (Avg TA/Avg Equity)	1.9	2.0	1.9	1.9	1.8
Adjusted ROAE	1.2	(2.3)	2.5	4.8	6.0

Ratio Analysis

Y/E 31 Mar	FY25A	FY26A	FY27E	FY28E	FY29E
YoY growth (%)					
Revenue	11.1	8.4	11.2	12.4	11.5
EBITDA	3.4	(0.7)	18.9	15.1	12.8
Adjusted EPS	NA	NA	NA	NA	34.2
Profitability & Return ratios (%)					
EBITDA margin	16.5	15.2	16.2	16.6	16.8
EBIT margin	3.9	2.6	4.4	5.5	6.1
Adjusted profit margin	1.3	(0.4)	1.4	2.4	2.9
Adjusted ROAE	1.2	(2.3)	2.5	4.8	6.0
ROCE	8.1	5.9	10.6	14.3	16.6
Working capital days (days)					
Receivables	4	4	3	3	3
Inventory	12	13	14	14	14
Payables	31	33	36	36	36
Ratios (x)					
Gross asset turnover	0.9	0.9	0.9	1.0	1.0
Current ratio	0.5	0.5	0.5	0.5	0.5
Net interest coverage ratio	1.0	0.7	1.1	1.4	1.6
Adjusted debt/equity	0.0	0.0	0.0	0.0	0.0

Source: Company, BOBCAPS Research | Note: TA = Total Assets

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Disclaimer

Name of the Research Entity: **BOB Capital Markets Limited**

Registered office Address: **1704, B Wing, Parinee Crescenzo, G Block, BKC, Bandra East, Mumbai 400051**

SEBI Research Analyst Registration No: **INH000000040 (Perpetual)**

SEBI Stock Broker Registration No: **INZ000159332**

SEBI Depository Participant Registration No: **IN-DP-728-2022**

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For any queries or grievances, you may contact the Grievance Officer.

Name of the Grievance Officer: Mr. Manoj Pawar

Email ID: head-customer@bobcaps.in; Phone no: 0+91-22-69417333

Brand Name: **BOBCAPS**

Website: <https://www.bobcaps.in/>

CIN: **U65999MH1996GOI098009**



Investments in securities market are subject to market risks. Read all the related documents carefully before investing.

Registration granted by SEBI and certification from NISM in no way guarantee performance of the intermediary or provide any assurance of returns to investors.

Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

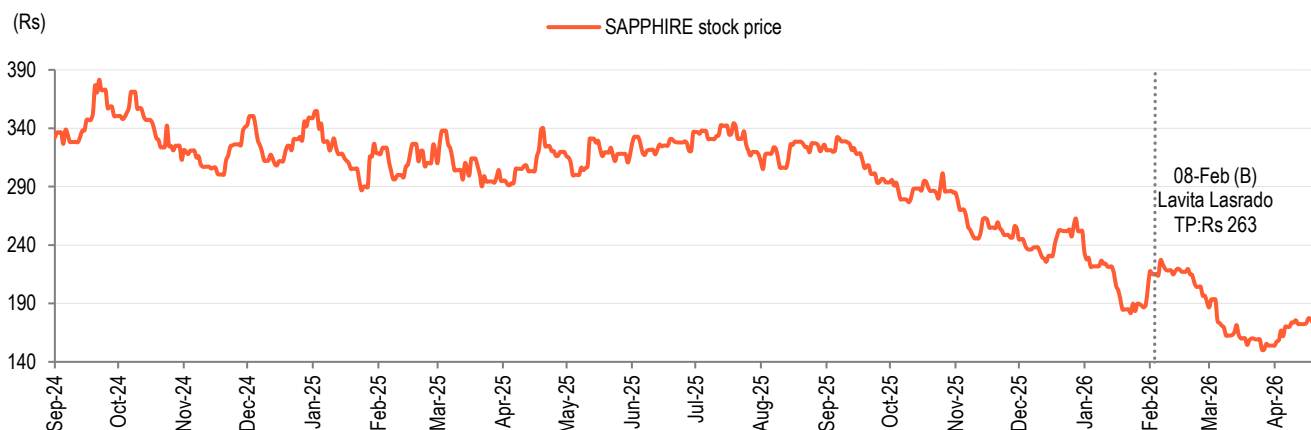
HOLD – Expected return from -6% to +15%

SELL – Expected return <-6%

Note: Recommendation structure changed with effect from 21 June 2021

Our recommendation scale does not factor in short-term stock price volatility related to market fluctuations. Thus, our recommendations may not always be strictly in line with the recommendation scale as shown above.

Ratings and Target Price (3-year history): SAPPHIRE FOODS (SAPPHIRE IN)



B – Buy, H – Hold, S – Sell, A – Add, R – Reduce

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