

BUY**TP: Rs 263 | ▲ 22%****SAPPHIRE FOODS**

| Consumer Discretionary

| 08 February 2026

Mixed Performance

- **Sapphire Foods reported a sequential improvement in profitability in Q3FY26, led by a stronger performance in the KFC business**
- **PH India continued to face demand pressure, weighing on the overall profitability; though select regional markets showed relative resilience**
- **Near-term profitability was impacted by exceptional and cost-related factors. BUY rating based on DCF with TP of 263**

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Result Highlights: Sapphire Foods posted revenue growth of 7.6% YoY at Rs 8,138 mn, led by KFC India that grew 11% YoY (Navratri benefit included), while Pizza Hut India declined 11% YoY, due to demand weakness and operating deleverage. In addition, Sri Lanka continued to outperform with 15% YoY growth (in LKR terms), maintaining leadership in the QSR space. KFC SSSG turned slightly positive at 1% (flat including the Navratri impact) and Pizza Hut at -12%, reflecting continued consumer weakness in discretionary spending. Sri Lanka delivered double-digit SSSG at 11% (LKR terms). EBITDA declined 0.1% YoY stood at Rs1,342 mn, with EBITDA margin at 16.5%, contracting by 126 bps YoY due to operating deleverage and higher delivery mix. However, Adj. EBITDA (before Ind-AS 116) declined 5% YoY to INR 774 mn, with a margin of 9.5%. During the quarter, the company added 31 restaurants (27 KFC and 1 Pizza Hut in India; 3 PH stores in Sri Lanka and Maldives), taking the total count to 1,028 restaurants, as of Dec 30, 2025.

KFC stabilises; Sri Lanka delivers high double-digit growth: KFC India SSSG at ~1%, aided by the shift of Navratri into the quarter. Management noted that the Rs 299 EPIC Saver campaign saw limited traction, prompting a shift to the Rs 99 Krisper Chicken Burger Meal. Early response has been encouraging, with January demand trends improving. KFC India Restaurant EBITDA margin expanded to ~18.8% (+60 bps YoY), driven by better gross margins and disciplined discounting. Sri Lanka business continued to deliver strong momentum, with management guiding for high double-digit revenue growth. While the restaurant EBITDA margin stood at ~16.7%, margins declined YoY, owing to the minimum wage hikes and temporary operational disruptions.

Our view: DIL-Sapphire's joint leadership leads to a pan-India QSR giant with ~3,000 stores, cost/ops synergies (60%+ in year 1), execution readiness, and Pizza Hut revival via Yum incentives, that should complete within 12-15 months. We see this move very positive and further expect Revenue/EBITDA to grow at 11.6%/14% CAGR over FY26-28E resp. We recommend BUY rating based on DCF with target price of INR 263.

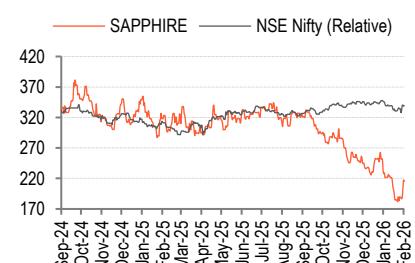
Ticker/Price	SAPPHIRE IN/Rs 215
Market cap	US\$ 762.7mn
Free float	74%
3M ADV	US\$ 2.4mn
52wk high/low	Rs 368/Rs 179
Promoter/FPI/DII	26%/29%/38%

Source: NSE | Price as of 6 Feb 2026

Key financials

Y/E 31 Mar	FY25A	FY26E	FY27E
Total revenue (Rs mn)	28,819	31,085	35,477
EBITDA (Rs mn)	4,768	4,604	5,960
Adj. net profit (Rs mn)	167	(51)	646
Adj. EPS (Rs)	0.5	(0.2)	2.0
Consensus EPS (Rs)	0.5	0.2	1.8
Adj. ROAE (%)	49.8	(8.0)	100.5
Adj. P/E (x)	413.7 (1,350.3)	107.0	
EV/EBITDA (x)	14.5	15.0	11.6
Adj. EPS growth (%)	(67.8)	(130.6)	(1361.6)

Source: Company, Bloomberg, BOBCAPS Research

Stock performance

Source: NSE



Earnings Call KTAs

Overall Performance

Sapphire Foods reported a sequential improvement in profitability in Q3, led by a strong performance in KFC India. Revenues grew 7% YoY to Rs 8 bn, while margins were impacted by the weak performance of Pizza Hut India, as also the exceptional costs related to labour code changes and merger expenses. Sri Lanka continued to deliver resilient growth with double-digit SSSG, despite cost pressures. Management highlighted a clear recalibration of its value and growth strategy, going forward.

Costs and Margins

During the quarter, margins were impacted by the operating deleverage in Pizza Hut India, higher wage costs due to labour code implementation, as well as one-off merger-related expenses. While KFC India saw margin expansion on improved food costs and lower promotions, Pizza Hut margins remained under pressure given the weak volumes. Sri Lanka margins declined YoY, due to minimum wage hikes and temporary operational disruptions, though the business continued to generate healthy EBITDA.

KFC India

KFC India revenue grew 11% YoY, supported by margin expansion and improved cost efficiencies. SSSG stood at 1% (including Navratri benefit), while Restaurant EBITDA margin improved 60 bps YoY to 18.8%, driven by gross margin improvement and reduced discounting. Sapphire Foods launched Rs 299 value campaign that did not deliver the expected traction, leading to the launch of the Rs 99 Krisper Chicken Burger Meal, supported by focused marketing efforts. Management indicated that January trends have been encouraging, suggesting early signs of demand recovery.

Pizza Hut India

Pizza Hut India continued facing demand challenges, with revenues declining 11% YoY and SSSG down 12%. Restaurant EBITDA remained under pressure at -3.1%, declining sharply YoY due to operating deleverage. However, the Tamil Nadu market continued to outperform the rest of India, with double-digit delta in both SSSG and margins. Net restaurant additions remained nil, where new store additions primarily offset the closures of loss-making outlets — reflecting a cautious approach towards expansion amid weak performance.

Sri Lanka Business

Sri Lanka delivered another strong quarter with revenue growth of 15% YoY in LKR terms and SSSG of 11%. Restaurant EBITDA stood at 16.7%, though margins declined YoY — given the higher minimum wages and temporary operational disruptions. Despite near-term margin pressures, the business continues to demonstrate structural strength with consistent demand momentum. Sri Lanka business is expected to maintain steady growth, although margin recovery may remain gradual, due to structural cost pressures.

Store Expansion

During Q3, Sapphire Foods added a total of 31 net restaurants, KFC India/Pizza Hut/Pizza Hut (Sri Lanka) outlets, including 27/1/3 restaurant resp. As of 31st Dec'25, total restaurant count stood at 1,028 stores. The company remained cautious, particularly for Pizza Hut India, where new store additions would primarily offset the closures of loss-making outlets, aimed at improving asset utilisation and unit economics.

Channel Mix

Channel mix remained broadly stable, with dine-in contributing ~55–56% of revenues; while delivery and takeaway accounted for the balance led by aggregator platforms. Management highlighted its continued focus on reducing discount-led sales, particularly in KFC, which supported gross margin improvement.

Valuation Methodology

DIL-Sapphire's joint leadership leads to a pan-India QSR giant with ~3,000 stores, cost/ops synergies (60%+ in year 1), execution readiness, and Pizza Hut revival via Yum incentives, that should complete within 12-15 months. We see this move very positive and further expect Revenue/EBITDA to grow at 11.6%/14% cagr over FY26-28E resp. We recommend BUY rating based on DCF with target price of INR 263.

Key Risks

Key downside risks to our estimates:

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

Fig 1 – Quarterly Table

(Rs mn)	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Total Revenues	7,182	6,957	7,565	7,113	7,768	7,424	8,138
% growth	9.8	8.3	13.7	12.6	8.2	6.7	7.6
COGS	2,256	2,171	2,376	2,266	2,533	2,394	2,550
% growth	9.5	8.0	14.7	15.2	12.3	10.3	7.3
as % of sales	31.4	31.2	31.4	31.8	32.6	32.2	31.3
Gross Profit	4,926	4,786	5,189	4,848	5,235	5,031	5,589
Gross Margin (%)	68.6	68.8	68.6	68.2	67.4	67.8	68.7
Employee costs	949	954	984	977	1023	1058	1090
% growth	11.7	9.1	12.6	14.0	7.8	10.9	10.8
as % of sales	13.2	13.7	13.0	13.7	13.2	14.2	13.4
Other expenses	2,736	2,712	2,862	2,808	3,083	2,952	3,156
% growth	13.1	13.5	14.9	14.0	12.7	8.8	10.3
as % of sales	38.1	39.0	37.8	39.5	39.7	39.8	38.8
Total Expense	3,685	3,666	3,846	3,786	4,106	4,010	4,246
EBITDA	1,241	1,120	1,343	1,062	1,129	1,021	1,342
Margin %	17.3	16.1	17.8	14.9	14.5	13.8	16.5
Depreciation	904	881	1005	850	920	972	1020
Interest	273	271	275	298	295	307	315
Other income/expense (net)	53	85	105	130	68	92	71
PBT	117	53	168	45	(18)	(166)	78
Tax	36	1	40.9	(14.2)	(1.1)	(37.9)	14.6
PAT	81	52	127	59	(17)	(128)	64
% growth	(67.4)	(65.9)	30.3	189.4	(121.5)	(346.8)	(50.1)
Adjusted PAT	81	(62)	127	20	(17)	(128)	(48)
% growth	(0.7)	(1.4)	0.3	0.0	(1.2)	1.0	(1.4)
as % of sales	1.1	(0.9)	1.7	0.3	(0.2)	(1.7)	(0.6)

Source: Company, BOBCAPS Research

Fig 2 – Key operating Metrics

KFC	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Store Count	406	429	442	461	496	502	510	529	556
Store addition	25	23	13	19	35	6	8	19	27
SSSG (%)	(2.0)	(3.0)	(6.0)	(8.0)	(3.0)	(1.0)	0.0	(3.0)	1.0
Restaurant related revenue (INR mn)	4,421	4,285	4,770	4,527	4,948	4,793	5,275	4,856	5,509
% growth YoY	16.0	16.1	11.3	8.7	11.9	11.9	10.6	7.3	11.3
ADS (INR '000)	125	114	122	111	115	108	116	103	112
Gross Margin %	68.4	68.3	68.2	68.3	68.2	68.0	67.1	67.2	68.6
Restaurant EBITDA (%)	20.1	18.7	18.8	16.5	18.2	15.7	15.7	13.8	18.8

Source: Company, BOBCAPS Research

Fig 3 – Pizza Hut

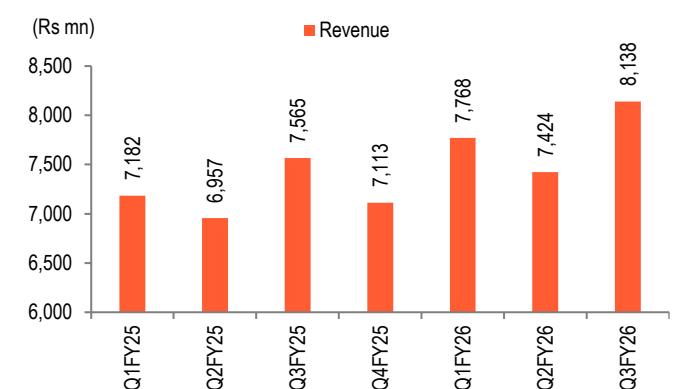
Pizza Hut	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Store Count	319	319	320	323	339	334	336	338	339
Store addition	8	-	1	3	16	(5)	2	2	1
SSSG (%)	(19.0)	(15.0)	(7.0)	(3.0)	5.0	1.0	(8.0)	(8.0)	(12.0)
Restaurant related revenue (Rs mn)	1,305	1,188	1,397	1,376	1,430	1,248	1,320	1,296	1,275
% growth YoY	(4.3)	(2.7)	2.6	3.5	9.6	5.1	(5.5)	(5.8)	(10.8)
ADS (INR '000)	45	41	48	47	48	42	44	42	41
Gross Margin %	75.7	75.5	76.1	76.5	75.6	74.8	74.6	74.4	74.9
Restaurant EBITDA (%)	4.6	(2.7)	4.6	4.1	4.7	(4.6)	(2.5)	(1.8)	(3.1)

Source: Company, BOBCAPS Research

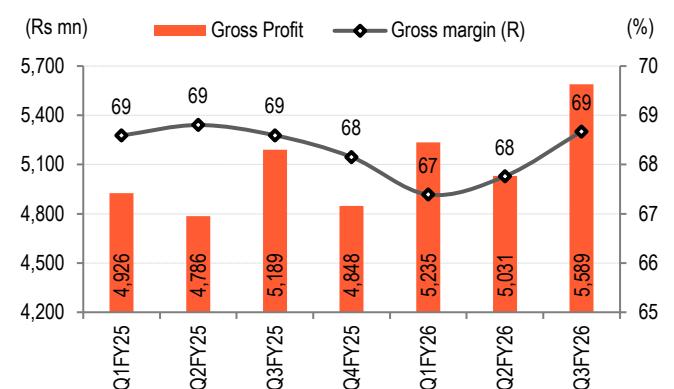
Fig 4 – SriLanka

Sri Lanka	Q3FY24	Q4FY24	Q1FY25	Q2FY25	Q3FY25	Q4FY25	Q1FY26	Q2FY26	Q3FY26
Store Count	125	124	124	125	126	127	128	130	133
Store addition	3	(1)	-	1	1	1	1	2	3
SSSG (%)	1.0	4.0	11.0	9.0	14.0	16.0	12.0	15.4	11.0
Restaurant related revenue (Rs mn)	892	816	978	1,024	1,159	1,066	1,164	1,264	1,342
% growth YoY	22.0	22.3	18.5	18.5	29.9	30.6	19.0	23.4	15.8
ADS (INR '000)	81	75	89	93	103	95	103	109	114
Gross Margin %	61.8	61.9	60.6	61.1	62.1	60.6	60.9	63.3	63.7
Restaurant EBITDA (%)	14.2	12.3	13.2	15.5	17.8	14.8	12.7	14.0	16.7

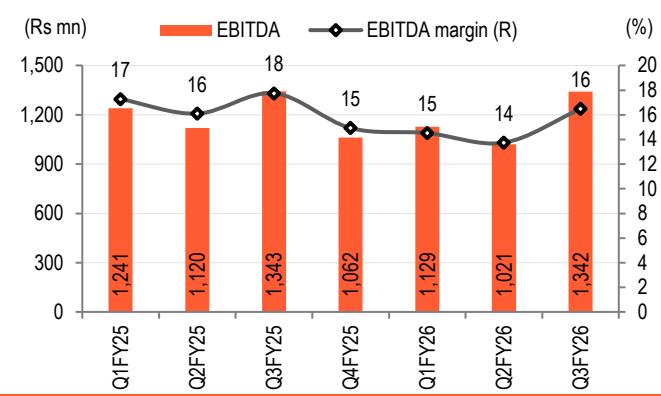
Source: Company, BOBCAPS Research

Fig 5 – Trend in revenue

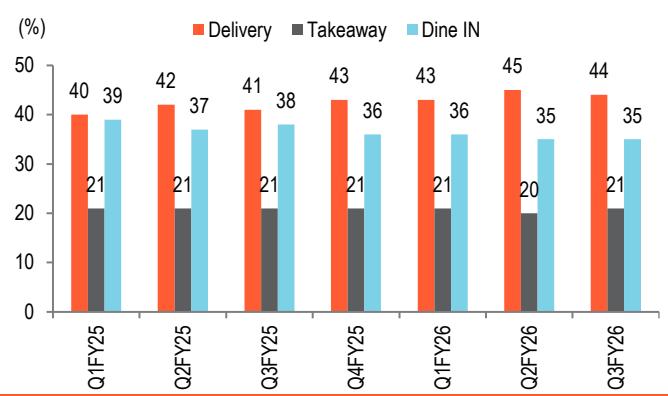
Source: Company, BOBCAPS Research

Fig 6 – Gross Profit & its margins

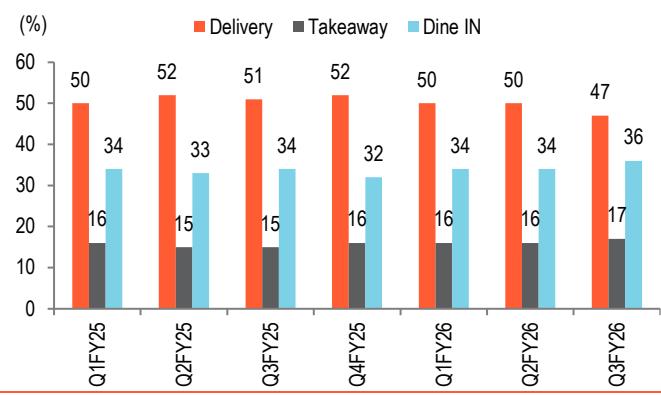
Source: Company, BOBCAPS Research

Fig 7 – EBITDA and its margins

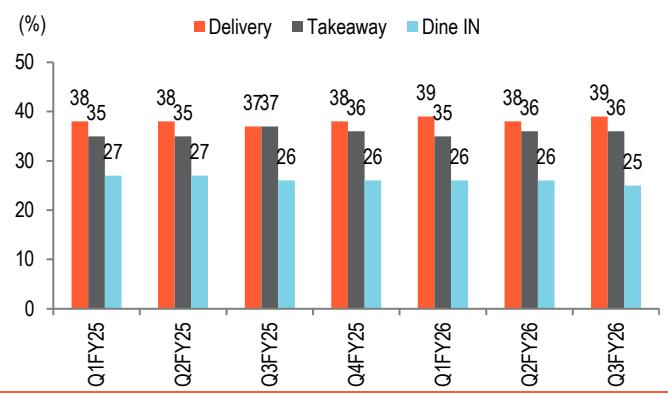
Source: Company, BOBCAPS Research

Fig 8 – Sales channel mix: KFC

Source: Company, BOBCAPS Research

Fig 9 – Sales channel mix: Pizza Hut

Source: Company, BOBCAPS Research

Fig 10 – Sales channel mix: Srilanka

Source: Company, BOBCAPS Research

Financials

Income Statement

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Total revenue	25,943	28,819	31,085	35,477	40,081
EBITDA	4,613	4,768	4,604	5,960	7,054
Depreciation	3,239	3,639	3,896	4,196	4,490
EBIT	1,374	1,128	708	1,764	2,564
Net interest inc./exp.)	1,009	1,116	1,204	1,374	1,552
Other inc./exp.)	334	372	428	471	466
Exceptional items	0	153	0	0	0
EBT	699	384	(68)	861	1,477
Income taxes	180	64	(17)	215	369
Extraordinary items	0	0	0	0	0
Min. int./Inc. from assoc.	7	(19)	(19)	(19)	(19)
Reported net profit	520	167	0	0	0
Adjustments	0	153	0	0	0
Adjusted net profit	520	167	(51)	646	1,108

Balance Sheet

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Accounts payables	2,308	2,425	3,066	3,499	3,953
Other current liabilities	792	800	800	800	800
Provisions	77	67	73	81	89
Debt funds	10,517	11,766	11,766	11,766	11,766
Other liabilities	10,393	11,785	11,785	11,785	11,785
Equity capital	638	642	642	642	642
Reserves & surplus	12,754	13,338	13,287	13,933	15,041
Shareholders' fund	13,392	13,981	13,929	14,575	15,683
Total liab. and equities	24,068	25,946	25,895	26,540	27,648
Cash and cash eq.	976	583	1,130	2,308	4,246
Accounts receivables	344	366	255	292	329
Inventories	969	956	1,192	1,361	1,537
Other current assets	169	229	251	277	304
Investments	0	1,437	1,437	1,437	1,437
Net fixed assets	11,966	12,456	12,289	11,894	11,205
CWIP	673	558	558	558	558
Intangible assets	9,624	10,185	10,018	9,623	8,934
Deferred tax assets, net	1,129	1,115	1,115	1,115	1,115
Other assets	1,183	1,118	1,140	1,163	1,187
Total assets	24,068	25,946	25,895	26,540	27,648

Cash Flows

Y/E 31 Mar (Rs mn)	FY24A	FY25A	FY26E	FY27E	FY28E
Cash flow from operations	4,488	5,080	5,480	6,353	7,291
Capital expenditures	(3,850)	(2,649)	(1,446)	(1,518)	(1,518)
Change in investments	691	(1,350)	(2,283)	(2,283)	(2,283)
Other investing cash flows	1,289	630	0	0	0
Cash flow from investing	(1,869)	(3,368)	(3,729)	(3,801)	(3,801)
Equities issued/Others	83	227	0	0	0
Debt raised/repaid	(209)	(79)	0	0	0
Interest expenses	(1,999)	(2,253)	(1,204)	(1,374)	(1,552)
Dividends paid	0	0	0	0	0
Other financing cash flows	0	0	0	0	0
Cash flow from financing	(2,125)	(2,106)	(1,204)	(1,374)	(1,552)
Chg in cash & cash eq.	65	0	0	0	0
Closing cash & cash eq.	976	583	1,130	2,308	4,246

Per Share

Y/E 31 Mar (Rs)	FY24A	FY25A	FY26E	FY27E	FY28E
Reported EPS	1.6	0.6	(0.2)	2.0	3.4
Adjusted EPS	1.6	0.5	(0.2)	2.0	3.4
Dividend per share	0.0	0.0	0.0	0.0	0.0
Book value per share	41.7	43.5	43.4	45.4	48.8

Valuations Ratios

Y/E 31 Mar (x)	FY24A	FY25A	FY26E	FY27E	FY28E
EV/Sales	2.7	2.4	2.2	1.9	1.7
EV/EBITDA	15.0	14.5	15.0	11.6	9.8
Adjusted P/E	133.0	413.7	(1,350.3)	107.0	62.4
P/BV	5.2	4.9	5.0	4.7	4.4

DuPont Analysis

Y/E 31 Mar (%)	FY24A	FY25A	FY26E	FY27E	FY28E
Tax burden (Net profit/PBT)	74.3	83.3	75.0	75.0	75.0
Interest burden (PBT/EBIT)	50.9	34.1	(9.6)	48.8	57.6
EBIT margin (EBIT/Revenue)	5.3	3.9	2.3	5.0	6.4
Asset turnover (Rev./Avg TA)	107.8	111.1	120.0	133.7	145.0
Leverage (Avg TA/Avg Equity)	1.8	1.9	1.9	1.8	1.8
Adjusted ROAE	3.9	2.3	(0.4)	4.4	7.1

Ratio Analysis

Y/E 31 Mar	FY24A	FY25A	FY26E	FY27E	FY28E
YoY growth (%)					
Revenue	14.5	11.1	7.9	14.1	13.0
EBITDA	7.7	3.4	(3.4)	29.5	18.4
Adjusted EPS	(77.7)	(67.8)	(130.6)	(1361.6)	71.6
Profitability & Return ratios (%)					
EBITDA margin	17.8	16.5	14.8	16.8	17.6
EBIT margin	5.3	3.9	2.3	5.0	6.4
Adjusted profit margin	2.7	1.3	(0.2)	2.4	3.7
Adjusted ROAE	81.5	49.8	(8.0)	100.5	172.5
ROCE	10.3	8.1	5.1	12.1	16.3
Working capital days (days)					
Receivables	3	4	3	3	3
Inventory	14	12	14	14	14
Payables	32	31	36	36	36
Ratios (x)					
Gross asset turnover	0.9	0.9	0.9	1.0	1.0
Current ratio	0.5	0.5	0.4	0.4	0.5
Net interest coverage ratio	1.4	1.0	0.6	1.3	1.7
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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Recommendation scale: Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

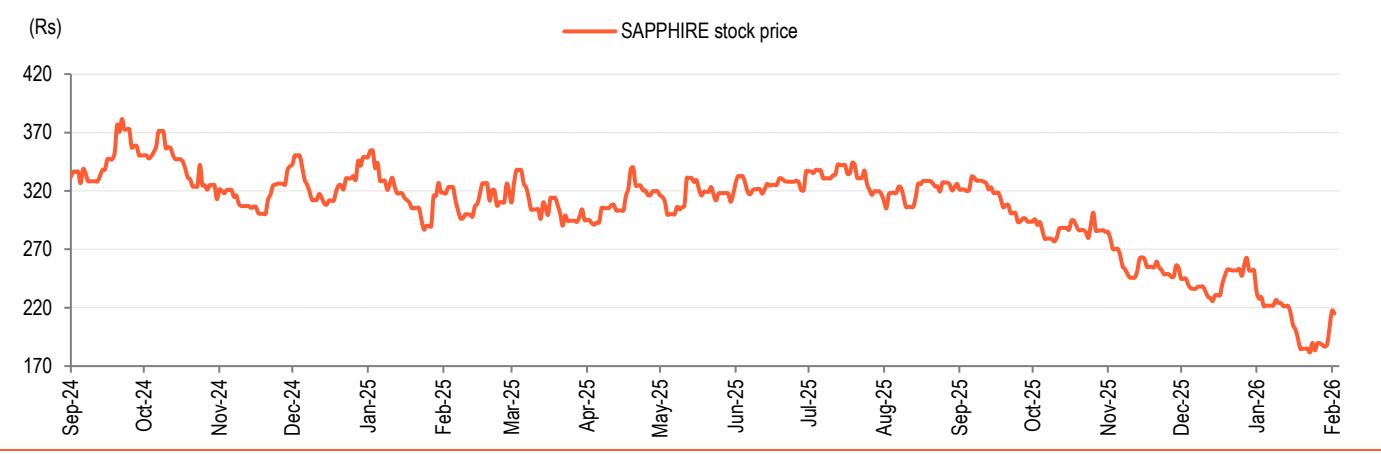
HOLD – Expected return from -6% to +15%

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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