Food Services Industry Update June 2021

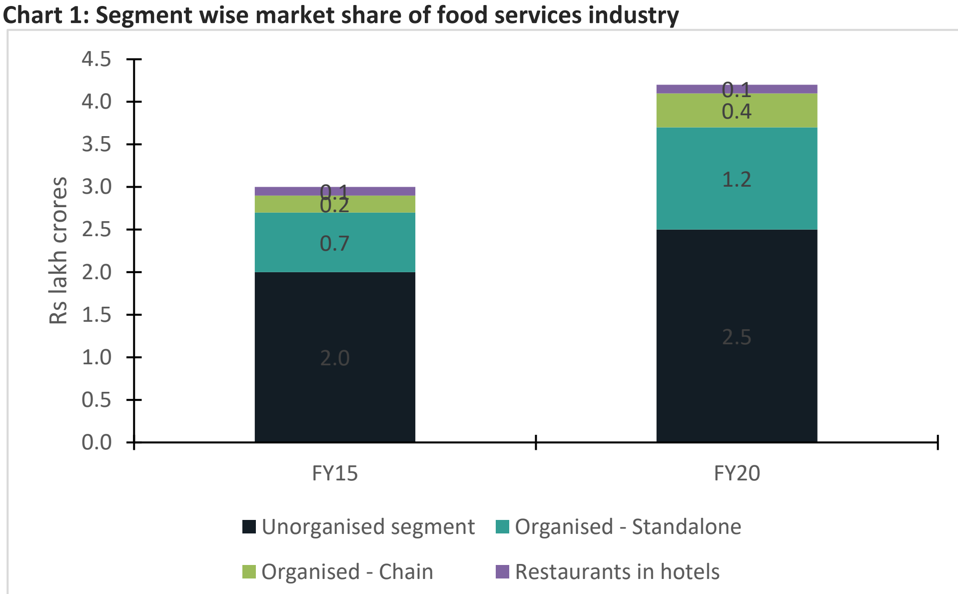
June 9, 2021 | Industry Research

Market Size

The food services industry that comprises of roadside eateries, dhabas, cafes, restaurants in hotels, independent as well as chain of fine dining and casual dining restaurants, quick service restaurants, pubs, bars and lounges registered a CAGR of 7% and grew from Rs 3 lakh crores in FY15 to Rs 4.2 lakh crores in FY20 as per market sources backed by the growing presence of domestic and international brands, rise in disposable incomes, increase in urbanisation, change in family structures, favourable demographics amongst many other factors. However, in FY21, the overall market size is expected to have declined by 40-50% due to the global outbreak of Covid-19 and subsequent imposition of restrictions in the country.

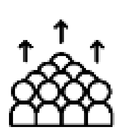
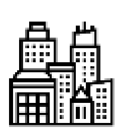
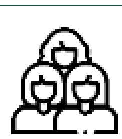
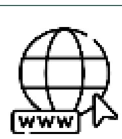
Segment wise breakup of the industry in FY15 and FY20 is depicted in chart 1 below. The share of organised segment – standalone and chain combined has increased in the total food services industry from 30% to 38.1% whereas the share of unorganised segment has declined from 67% to 60%. This is significant as there is a move towards formalization of this segment as more players are entering the field given the high growth potential. Meanwhile, the proportion of restaurants in hotels in the total industry has remained more or less constant. However, it is interesting to note that overall the industry still largely remains unorganised.

Chart 1: Segment wise market share of food services industry



Source: Market sources (like DRHP)

Growth Drivers for food services industry

Growth drivers		Change in the growth driver		
	**Share of working age (15-64 years) population**	36% in FY2000	→	50% in FY19
	**Share of urban population**	31% in FY2010	→	34.5% in FY19
	**Share of working women**	~17% in CY2010	→	~24% in CY2018
	**Internet/broadband subscribers**	331.7 million in Q3-FY16	→	795.2 million in Q3-FY21
	**Online food delivery market**	USD 4.7 billion in FY16	→	USD 10.2 billion in FY20

Source: Market Sources (like DRHP), CARE Ratings

1. <u>Favourable Demographics</u>

The estimated median age in India is 28.7 years in 2020. This is the lowest when compared to the estimated median age in other leading economies in the world. It is 38.5 and 38.4 years in USA and China respectively. The increasing size of the young population in the country has led to a fall in the dependency ratio (ratio of dependent people to working-age people, 15 to 64 years of age) as it came down from 64% in FY2000 to 50% in FY19. This could lead to higher allocation for discretionary expenditure and promote growth in demand for food services.

Also, the share of people in the age group of 15-64 years, which is the high consuming class has risen from 36% in FY2000 to 50% in FY19. All the above factors have enabled the growth in food services industry as young people are known to be more open and adaptable to exploring new trends and cuisines and embracing the advancements in technologies.

2. <u>Rise in Urbanisation</u>

The number of people migrating from rural to urban areas has been on an upward trajectory since 2000. Urban population accounted for 34.5% of the total population in FY19 (31% share in FY2010) although it is lower than the global average of 54%. Numerous schemes and projects launched by the government such as the Smart Cities Mission, Atal Mission for Rejuvenation and Urban Transformation (AMRUT), Pradhan Mantri Awas Yojana (Urban) among other initiatives has aided the growth in urbanisation. It is to be noted that the global outbreak of Covid-19 and subsequent imposition of restrictions in the country led to a temporary disruption in the form of reverse migration. However, the migrants returned to the cities once the Covid-19 cases were brought under control and restrictions were eased.

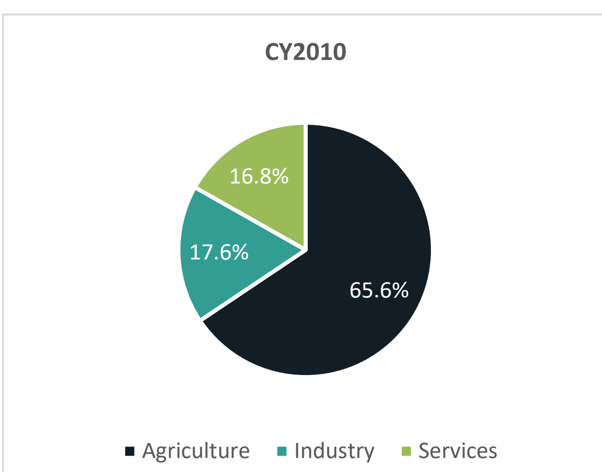
Also, increase in urbanisation has led to a rise in middle class population as well as nuclearization of families. As per Census 2011, in comparison with 65% in 2001, 74% of households in urban areas had five or less members in the family. Both the trends have aided increase in discretionary spending by consumers on numerous services including food services which is expected to indirectly promote the behaviour of eating out and ordering in.

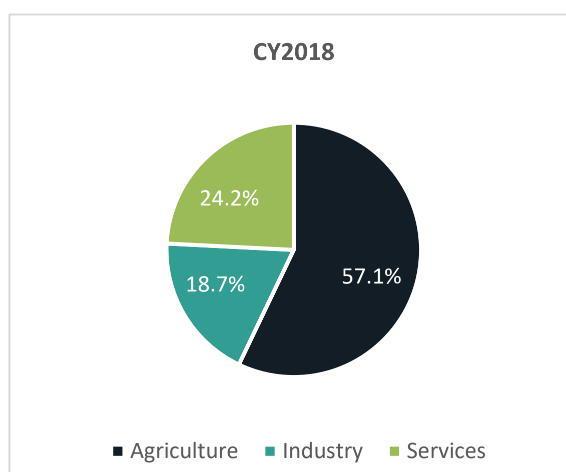
3. <u>Growth in women workforce</u>

Increased awareness amongst other enablers has led to more girls in both urban and rural areas to pursue education which has led to a rise in employment of women. In CY18 112 million women were employed and the share of working women grew from ~17% in CY2010 to ~24% in CY2018.

The increase in share of women in the workforce has led to double income households and lesser time available to prepare home cooked meals which has driven the growth in food services industry. Further, double income means more spending power which is spent also on eating out among other allocations.

Chart 2 and 3: Share of women workforce in different sectors



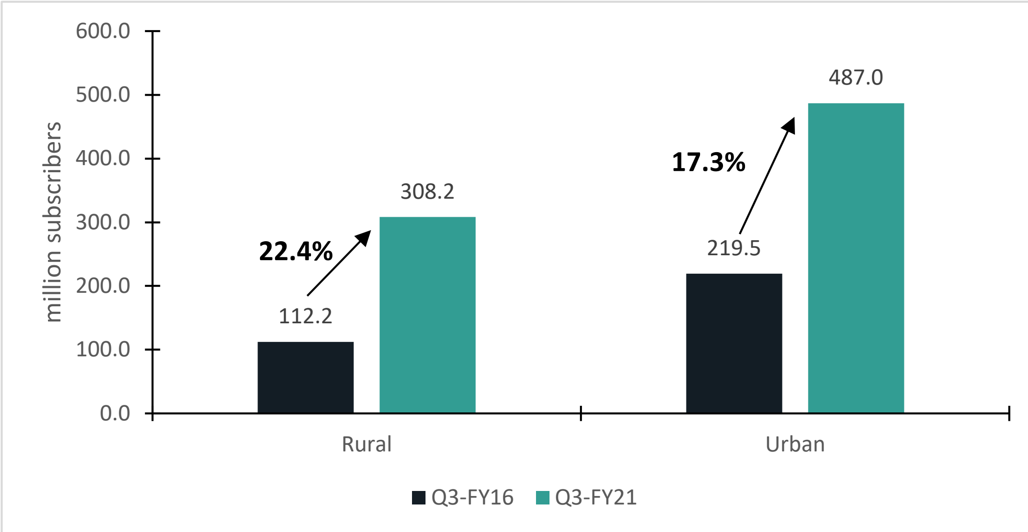


Source: Market Sources (including DRHP)

4. <u>Internet penetration & technological advancements</u>

The number of internet/broadband subscribers grew at a CAGR of 19.1% from 331.7 million subscribers in Q3-FY16 to 795.2 million subscribers in Q3-FY21. The penetration of internet in rural and urban areas grew at a CAGR of 22.4% and 17.3% respectively from FY16 to FY21 in Q3 as shown in chart 4 below. The higher penetration of internet coupled with increase in the number of smartphone users could lead to growth in online food services.

Chart 4: Internet penetration in rural and urban areas



Source: TRAI

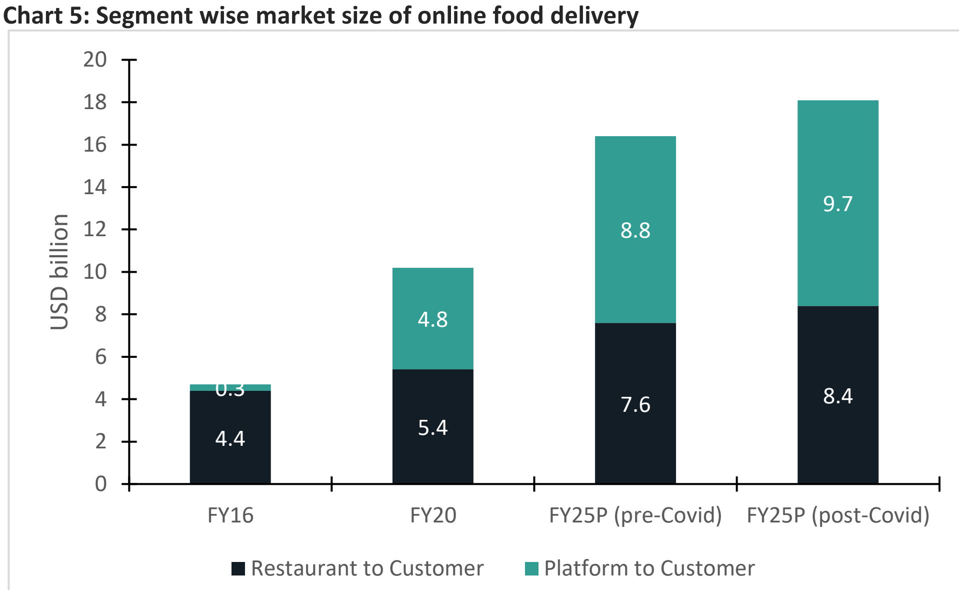
5. Growth of online food delivery

Online food delivery service can be bifurcated in to two segments:

1. Restaurant to Customer: When customer orders directly from the restaurant
2. Platform to Customer: When customer orders from food delivery aggregators that act as an intermediary between the restaurant and the customer

The emergence of food delivery aggregators has brought a significant part of the unorganised market under the ambit of organised segment thereby enabling customers with many options to order from thus driving the demand for food service industry. Further, the outbreak of Covid-19 accelerated the need for food delivery aggregators even more as restrictions on dine-in services led to many food service industry players partnering with the aggregators in order to survive. Similarly, many players urged customers to place orders directly on their in-house apps and websites and partnered with third party logistic providers. As can be seen from chart 5 below, online food delivery market grew at a CAGR of 21.4% from USD 4.7 billion in FY16 to USD 10.2 billion in FY20 and is projected to grow at a CAGR of 12.2% post-Covid (10% pre-Covid estimates) in FY25 to USD 18.1 billion.

Chart 5: Segment wise market size of online food delivery



Source: Market Sources (including DRHP)

In addition to the factors mentioned above, several other factors such as growth in GDP, increase in disposable income of consumers, rise in spending by consumers on food, higher penetration of brands in Tier 2 and 3 cities, busy lifestyle of consumers etc is projected to advance the growth in food services industry.

Impact of Covid-19

In the last week of March, 2020, the country went under a strict national lockdown on account of the outbreak of Covid-19. Initially only home deliveries and takeaways were permitted but the industry continued to witness muted demand as consumers remained cautious. On the supply side, Quick service restaurants (QSRs) and cloud kitchens were able to swiftly adapt to the delivery only model on account of their existing operating model while restaurants that were primarily built to provide dine-in experience such as fine dining took a longer time to adapt. The unorganised segment like roadside eateries and dhabas were the worst hit owing to the safety and hygiene concerns with regards to the virus. As restaurants and food delivery aggregators began promoting contactless delivery, consumer sentiment improved and people started ordering food online. Numerous restaurants also urged the consumers to order directly through their social media handles and set up their in-house apps and websites and partnered with third party logistic providers.

It is to be noted that as the industry largely remains unorganised, it may not have been feasible for many players in the industry to set up their own digital platforms or partner with food delivery aggregators. Hence, a lot of restaurants closed down operations owing to Covid-19 induced challenging business environment.

With further ease in restrictions and dine-in services being permitted with limited capacity and reduced hours of operation, consumer demand gradually picked up from Q3-FY21. The nationwide vaccine inoculation drive that began in January 2021 also helped improve consumer sentiment. However, the recent spike in Covid-19 caseload in March-April 2021 has hampered this recovery. Several states have gone under partial or complete lockdown from April 2021 which in turn has once again impacted the business. While food delivery and take-away is permitted, it is believed that it contributes to only 10-15% of the total revenue generated. Our estimate is that around 45-50% restaurants and hotels are still incurring losses. Further, around 25-30% restaurants and hotels have permanently closed down.

Outlook for FY22

While online delivery of food was permitted during the outbreak of Covid-19, dine-in services were not allowed. Gradually, restaurants were allowed to operate with reduced hours of operations and limited seating capacity. The demand for dine-in services started improving from the third quarter of FY21 supported by ease in restrictions on movement of people, opening of leisure and entertainment activities and places like malls and theatres. The vaccination drive initiated in January 2021 aided the consumer confidence. However, the rise in caseload of Covid-19 since the end of March, 2021 has hampered the recovery in demand. Staggered lockdowns and reduced operating hours of business with only takeaway and home deliveries being permitted is expected to hit the top-line of the restaurants. Even with ease in restrictions from May-June, it is expected that consumer demand for dine-in services may not recover till H2-FY22. It is dependent on the containment of the virus and the progress of the mass vaccination drive. On account of the statistical base effect, it is expected that Q1, Q2 and Q3 in FY22 might record higher year-on-year growth rates in net sales. Overall, for FY22, net sales could increase by 45-50%. But his would still be much lower than the FY20 level.

The long-term outlook of the industry remains positive on the back of increase in disposable incomes, busy lifestyle of consumers, favourable demographics, growing presence of online food delivery and advancements in technologies amongst other enablers.

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