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Restaurant Sector Growing...Back on Course

Report Categories:

Beverages

Market Development Reports

Promotion Opportunities

Food Service - Hotel Restaurant Institutional

SP1 - Expand International Marketing Opportunities

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Report Highlights:

India's quick service and casual dining restaurant sector has regained momentum since 2016. There are an estimated 63 foreign restaurant brands across India compared to 57 in 2015. Indian brands are diversifying into regional cuisines and several are challenging international brands which busily are expanding their footprint. Market opportunities exist for U.S. companies interested in supplying ingredients, processed foods, and non-native fruits and vegetables for this component of the food service sector.

General Information:

Market Overview

India's quick service restaurant (QSR) and casual dining restaurant sector (CDR) experienced a number of policy changes in late 2016 and through 2017; including, demonetization and its lasting effects; a temporary ban on liquor sales at restaurants and establishments near national highways; and, the introduction of a goods and services tax (GST). Smaller outlets, more food innovation, and greater focus on same-store sales growth are driving growth in the face of these policy changes.

The National Restaurant Association of India (NRAI) reported the restaurant sector is valued in 2017 at U.S. \$52 billion (Rs. 337,500 crore) (Note: 2017 exchange rate calculation \$1 equals Rs. 65) and is projected to grow to U.S. \$85 billion (Rs. 552,000 crore) by 2022. It employs 6 million people directly and another 8 million indirectly. Analysts forecast the sectors will contribute 2.1 percent to Indian GDP by 2021. According to NRAI, Mumbai and the New Delhi national capital region (NCR) contribute 22 percent of food service market sales and are followed by the six "mini metros"; including, Pune, Ahmedabad, Bengaluru, Chennai, Hyderabad and Kolkata which comprise another 20 percent share.

The QSR and CDR span organized and unorganized markets and include pubs, bars, and cafes as well as street vendors. Standalone restaurants are emerging and competing in this segment against several chain and group-owned QSRs and CDRs. Gaining consumer loyalty to a restaurant and its brand is the major challenge the segment faces.

Consumer Expenditure and Trends

India is the world's second most populous country with a total population of 1.3 billion and accounts for 17.3 percent of the global population according to Indian data published by the United States Census Bureau. India is projected to be the world's most populous country by 2026. It currently is one of the youngest countries in the world with a median age just shy of 28 years. Moreover, nearly 62 percent of Indians are under the age of 35 and about 34 percent of India's population is urban (Source: Office of Registrar General of India, Ministry of Home Affairs and CIA World Factbook). Multiple industry sources recognize India as one of the world's top ten largest economies and expect the country to grow in importance and overtake numerous others in the coming years.

Consumer expenditure on food and non-alcoholic beverages in 2015 stood at an estimated U.S. \$35 billion (Rs. 2,213,918 crore), compared to U.S. \$34 billion (Rs. 2,065,410 crore) in 2014. (Source: Central Statistics Office; Note: 2015 exchange rate at \$1 equals Rs. 63.8 and 2014 exchange rate at \$1 equals Rs. 60.76).

India's urban youth population is vibrant, enthusiastic, innovative, and self-motivated. They have an extreme social media presence and use various platforms to convey their emotions incessantly. They love experimenting with food and with increasing disposable incomes and a shift in consumer preferences, dining at QSRs and CDRs is no longer perceived as a sparing luxury. Rather, dining at QSRs and CDRs with peers or family is a means to relax, de-stress and socialize.

Food evolution is taking place on traditional menus. Fusion foods and recipes curated with imported ingredients for traditional Indian dishes attract consumers. Trade sources report that within the Indian food service segment, they see a rise in regional cuisine themed restaurants like Parsi, Kannada,

Assamese and the like, while at the same time they are seeing growth in international-themed restaurants like Thai, Mexican, and Italian. Often times, international brands are adding store locations and expanding their footprint to more neighborhoods and cities.

Health conscious consumers are moving towards healthy eating options. QSR chains targeting health are witnessing significant growth; albeit from a low base as the trend is just emerging. Consumers wanting “health” look for exotic fruits and vegetables, herbs, gluten-free, lactose-free, vegan, low carbohydrate, and organic meals. Trade sources reports that imported ingredients are increasingly available and accepted more easily by consumers.

According to the 2016 India Food Service report, about 36 percent of the dining out population are “family bond seekers”; around 25 percent are “fun seekers” (i.e., the ones who like to experiment); about 15 percent eat out to socialize; and, the remaining 24 percent are the discerning urban class with higher incomes and who are willing to pay a premium for quality and comfort. For each of these categories, preferences differ when it comes to food and dining out destinations.

A family bond seeker dines out an average of 2 or 3 times per month, or, orders in from outside restaurants and spends about U.S. \$85 per month (Rs. 5,500). Typically, this consumer prefers to eat north Indian cuisine the most, followed by Chinese. The fun seekers eat out or order in about 5-6 times a month, spend about U.S. \$69 per month (Rs. 4,500) and prefer American-style food and pizza. The socializers spend about U.S. \$100 per month (Rs. 6,500) and eat out or order in about four times a month. About 41 percent of socializers prefer eating at a QSR and 36 percent prefer dining at a CDR. The discerning urban consumer spends the most at about U.S. \$134 per month (Rs. 8,700) and tends to eat out or order in 3-4 times a month. Thirty-seven percent of discerning consumers prefer CDRs the most and like Italian food followed by pan-Asian cuisine.

QSR vs Standalone Restaurants

The restaurant sector in India envisions a chef delivering a personalized experience to their guest’s right from the time they enter the restaurant to the time they leave. Restaurants are designing this experience with a view towards menu selection, ambience, and special gestures. Many QSRs and CDRs emphasize their offerings and gain popularity through their chefs who act as de facto brand ambassadors.

Millennials (people born in or after 2000) who enjoy traveling are the primary customer audience for QSRs and CDRs. These consumers are more disposed towards the idea of experimenting with food.

Among those consumers who dine out frequently, about 30 percent prefer Indian cuisine, 25 percent prefer Chinese, 20 percent prefer American, and the balance have wide-ranging preferences like Italian, Thai, Japanese, Mexican, etc. According to Euromonitor, Latin American cuisine restaurants have registered 43 percent growth in the number of outlets in 2016, followed by fast food outlets featuring chicken at 35 percent.

Many fine dining restaurants have adopted the QSR model by opening kiosk size outlets in food courts of major shopping malls. Their food dishes in this format are priced at a lower rate with reduced portions. Young professionals and college-aged students are seen often at QSRs as they want a quick meal that is also hygienic and of superior food quality at a friendly price point.

QSRs are the most preferred destination, followed CDRs when it comes to eating out. They form 45

percent and 32 percent of the overall market respectively (Source: India Food Services report 2016). Standalone restaurants are preferred by consumers who like to de-stress after a fast paced day of work and fulfill consumers need for socializing. Business lunches in relaxed environments are trending higher, as well.

Implementation of the GST has not Affected Consumer Dining Preferences

The GST Council announced the current GST rates are 5 percent for all restaurants, except for ones located within hotels with room tariffs above U.S. \$115 (Rs. 7,500) and those establishments with outdoor catering. The GST rate for restaurants at these hotels and establishments is 18 percent. The GST has worked in favor of consumers by lowering the overall tax rate. Earlier, for example, an order would be charged 18 percent in taxes, but now it is only 5 percent on food items. There remains a 5 percent value added tax on alcoholic beverages and an 18 percent GST on aerated beverages.

Image 1. India: International-Themed CDR Restaurant Bill with Different Taxes Levied

| Description | Qty | Amount |
|--------------------------------|-----|-----------|
| PAO DE QUEIJO (VEG) | 2 | 890.00 |
| MEAT MEGA PLATTER | 1 | 4,400.00 |
| COXINHA | 1 | 435.00 |
| LINGUICA DE CORDEIRO ACEBO | 1 | 550.00 |
| CRISPY CALAMARI | 1 | 470.00 |
| CARNE NA PEDRA | 1 | 680.00 |
| CAMARAO GRELHADO | 1 | 890.00 |
| CARNE SECA COM MANDIOCA | 1 | 630.00 |
| PROFITEROLES | 1 | 335.00 |
| COFFEE PANNA COTTA | 1 | 360.00 |
| <hr/> | | |
| FOOD & BEVERAGE TAX Total : | | 9,640.00 |
| Service Charge 8% : | | 771.20 |
| 2.5% SGST on FOOD & BEVERAGE T | | 260.28 |
| 2.5% CGST on FOOD & BEVERAGE T | | 260.28 |
| <hr/> | | |
| WHITE OWL DIABLO PITCHER | 2 | 2,000.00 |
| <hr/> | | |
| LIQUOR TAX Total : | | 2,000.00 |
| Service Charge 8% : | | 160.00 |
| 5% VAT on LIQUOR TAX : | | 100.00 |
| 2.5% SGST on Service Charge : | | 4.00 |
| 2.5% CGST on Service Charge : | | 4.00 |
| <hr/> | | |
| SPRITE | 1 | 100.00 |
| <hr/> | | |
| AERATED BEVERAGE TAX Total : | | 100.00 |
| Service Charge 8% : | | 8.00 |
| 9% SGST on AERATED BEVERAGE TA | | 9.72 |
| 9% CGST on AERATED BEVERAGE TA | | 9.72 |
| <hr/> | | |
| Bill Total : | | 13,327.00 |

According to the [Department of Consumer Affairs](#), Service charge on hotel and restaurant bills is voluntary and at the customer's discretion to pay or not.
GST @ 5% on food

Value added Tax on liquor is @ 5%.

Tax on aerated beverages @ 18%

Challenges

Competition amongst brands stands strongest irrespective of the variety on menu. India is a price sensitive market and when it comes to QSRs consumers widely look at price, quality and then quantity. Increasing real estate costs make it difficult for restaurants to maintain competitive menu prices. Some restaurateurs have shared that once their rental rates increase, they will no longer be able to stay in a location irrespective of their customer following.

International QSRs face a major challenge having to customize their food menus for the Indian palate. For instance, an international pizza and Italian concept restaurant had to include a whole section of local favorite tastes in their menus, like *Aloo Gobhi pizza* (potato and cauliflower), *Palak Paneer pizza* (spinach and cottage cheese). Other western restaurant brands also needed to localize their menu by offering a wider array of vegetarian and non-vegetarian items like a *Paneer King Melt* (cottage cheese burger) or a *Rawalpindi Chana pizza* (white chickpeas).

Indian brands are diversifying their food to create fusions, as well. For instance, some restaurants service *mutton keema dosa* (minced meat rice pancake), *roast salad dosa* (roast salad rice pancake), and a *chocolate dosa* (chocolate rice pancake).

As for standalone restaurants, consumers look to ambience, quality of food, and then price. In this segment, restaurants have taken to creating innovative foods with traditional and forgotten ingredients. Fusion food is the trend here. Keeping up to the demand of the market, many chefs find it challenging to curate and maintain creative menus.

Food Trucks – A New Trend

Food trucks are the newest trend in the restaurant industry. Young entrepreneurs and chefs are setting up food trucks to overcome high rental costs on leases and the operational costs of a full-fledged restaurant business. Trade sources report that food trucks are seen frequently at music festivals, exhibitions, and food festivals. Some established hotel and restaurant businesses are extending their reach by adding food trucks. For example, The Lalit Hotel Group, a 5-star luxury hotel chain, has followed path and has their food trucks at business exhibitions.

Though the segment requires more clarifications on its operational procedures, there are a number of food trucks already competing with each other for market share. The Maharashtra Chief Minister, Devendra Fadnavis, said that the government will develop a food truck policy for Mumbai which serves as an indication of their increasing popularity.

Food Delivery Online Portals

Zomato, Swiggy, Foodpanda, UberEATS, Dine Out, Scootsy, TinyOwl are among the more popular food delivery and restaurant reservation-based apps that are further boosting the restaurant industry.

According to Food Service India Magazine, with 2 percent of the foodservice market on apps, the industry already receives one million daily phone orders and 30 million online orders. These companies provide an edge over QSRs for their convenience of ordering as customers can peruse menus and shop from the comfort of their home and benefit with additional discounts and cashback options compared to ordering directly from the QSR. Apps for food startups like Holachef, Freshmenu, iChef, Yumist that offer fresh food prepared by home chefs are growing. These apps are popular with the young working population who find it convenient to order their office lunch or home dinner with the click of a button.

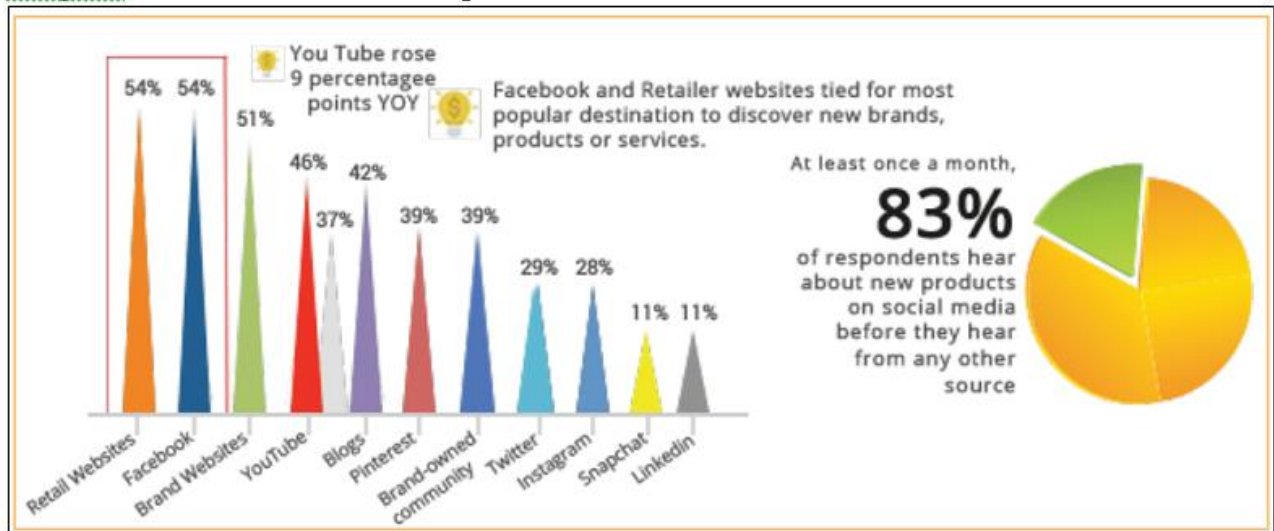
The digitalized restaurant segment has given rise to mobile wallet companies like Paytm, Mobikwik, Freecharge, PayU, and more. Trade sources report that the future will see mobile wallets as the most widely used mode of payment in lieu of credit cards, debit cards, and cash.

Social Media to Pull Consumer Demand

According to the 'Internet in India 2016' report jointly published by the [Internet and Mobile Association of India](#) (IAMAI) and Kantar [IMRB](#), the number of internet users in India was estimated at 432 million in December 2016 (269 million from urban and 163 million rural). Internet growth is attributed to increasing availability of cheaper smartphones. According to Social Media Report 2016, published by Yral, active social media users grew by 15 percent from January 2015 to 136 million in 2016.

Many consumers decide on dining out at a restaurant based on the reviews posted by food bloggers and food reviews of other consumers who visited the restaurant. These influencers tend to define the restaurant and its brand. Growth within the restaurant sector has given rise to the number of food bloggers and related blogs as well as associations. One example is the [Food Bloggers Association of India](#) that was formed in 2013 and brings together the food blogging fraternity to try out new restaurants and hold industry related gatherings.

Image 2. India: Social Media Snapshot



Source: Social Media Report 2016, Yral report

Food Promotions and Celebrations

Restaurants run a variety of food promotions providing new tastes and special foods or occasional discounts for themed and international meals. Popularly seen in the market are Italian, Thai and

Mexican festivals, wine or whiskey-paired dinners, as well as kebab festivals.

In 2015, USDA India conducted its first restaurant promotion with the ITC Grand Central Hotel in Mumbai at one of their buffet and a la carte venues. The promotion highlighted how U.S. ingredients can be used in Indian cooking and recipes that complement Indian tastes.

In 2016, USDA India supported a food and beverage menu promotion in Goa. The promotion reached ten hotel and standalone restaurants. It resulted in an average increase in sales of the participating hotel and restaurants by 67 percent over the duration of the promotion in comparison to the same period a year earlier. In 2016, USDA India supported another American food and beverage menu promotion in Mumbai across 12 high-end restaurants, bars, pubs and cafes where special menus were developed at some venues while in others chefs incorporated U.S. ingredients into existing recipes. The activity supported the introduction of more than 40 American products at these establishments. The promotion reached a wide audience across the city through a mix of print, broadcast, and electronic media all of which helped further the message of American food and ingredient opportunities in the Mumbai food service sector.

In 2017, USDA India organized a 23-restaurant food menu promotion in New Delhi highlighting American food products available in the Indian market. Results of the promotion are being tabulated, but participating suppliers indicated the promotion benefitted their sales of American ingredients, foods, and beverages.

What the Industry Experts are Saying

“Long-term macro trends are positive – younger demographics, mobile population, increasing urbanization. Tailwinds if the growth are back” – Jubilant Foodworks

“The outlook for the QSR looks positive. Consumer sentiment is improving, and we have seen an increase in footfall at our restaurants” – Westlife Development

“Consumption story is intact. Disposable income is increasing, eating out has seen traction and online ordering has spiked” – Burger King India

“QSR was expanding too fast, was trying too hard to woo consumers and had too much on its plate. Hard times has brought back a focus on sustainable growth” – SP Jain Institute of Management and Research.

“Consumer sentiment is improving, food inflation has been low, the GST cut from 18% to 5% is a big boost and all these have triggered revival” – Edelweiss Securities

“Party is never over at QSR. The rough patch was just a blip. The market is huge and the potential is enormous” – Wendy’s and Jamie Oliver Restaurants

Table 1. India: List of Major International QSR Brands Currently Operating in India

| | | |
|-----------------------------|--------------------------------|----------------------------|
| Au Bon Pain | Auntie Anne’s | Barcelos |
| Barista Lavazza | Baskin-Robbins | Breadtalk |
| Burger King | California Pizza Kitchen | Carl's Jr. |

| | | |
|--------------------------------|-----------------------------------|-------------------------------|
| Chicking | Chili's | Ci Gusta! |
| Cinnabon | Cookie Man | Costa Coffee |
| Debonair's | Debonair's | Di Bella Coffee |
| Domino's Pizza | Dunkin' Donuts | Eagle Boys Pizza |
| Fatburger | Genuine Broaster Chicken | Gloria's Jeans |
| Hard Rock Café | Jamie Oliver's Pizzeria | Johny Rocket |
| Jus Booster Juice | KFC | Kiwi Kiss |
| Krispy Kreme | Le Pain Quotidien | Leonidas Chocolates |
| Lord of the Fries | Mad Over Donuts | Marrybrown |
| McDonald's | Mini Melts | MooCow |
| Nando's | Papa John's Pizza | Papparoti |
| Patchi | Pinkberry | Pizza Express |
| Pizza Hut | Pizza Inn | Pizza Metro Pizza |
| Quiznos | Red Mango | Ruby Tuesday |
| Sal's Pizza | Sbarro | Segafredo Zanneti |
| Smoothie Factory | Starbucks Coffee | Subway |
| Taco Bell | TGIF | Wendy's |
| Wetzel's Pretzels | Yogen Fruz | Yogurberry |

Note: 2015 Post analysis recorded 57 foreign restaurant brands across India. 2017 analysis indicates 63. These tallies are not exhaustive and provide a general framework of what is transpiring in the sector. Indian newspapers report that many QSRs and CDRs have shut between 2013 and 2016; trade sources report that the QSR and CDR sector has grown since 2016.

Table 2. India: List of Select Indian QSR Brands

| | | |
|-----------------------------|-----------------|-------------------------|
| Bikanerwala | Café Coffee Day | Cream Center |
| Fassos | Goli Vada Pav | Haldiram's |
| Jumbo King | Kaventers | Kebab Korner by Zaffran |
| Maharaja Bhog | Nerulas | Pizza Corner |
| Shiv Sagar | Slice of Italy | Smokin' Joes |
| Street Food by Punjab Grill | Tibbs Frankie | US Pizza |

Table 3. India: List of Select Indian CDR Brands

| | | |
|-----------------|---------------|--------------------------------|
| Barbeque Nation | Carter's Blue | Colaba Social (American, North |
|-----------------|---------------|--------------------------------|

| | | |
|---|--|--|
| (BBQ) | (Lebanese, Chinese) | Eastern, Chinese) |
| Farzi Café (modern Indian) | Kobe Sizzlers (Sizzlers) | Lavaash by Saby (Armenian) |
| Leopold Café (American, Chinese, Mughlai, Italian) | Mahesh Lunch Home (Seafood) | Mainland China (Chinese) |
| Midnight Box (Thai, Burmese) | Pizza by the Bay (Italian) | Sigdi (North Indian) |
| Sigree Global Grill (Turkish, Lebanese, Greek) | Soda Bottle Openerwala (Parsi, Iranian) | The Fatty Bao (Sushi, Asian, Chinese) |

Table 4. India: List of Select Standalone Restaurants Serving Regional Cuisine

| | | |
|---|---------------------------|--|
| 29 States (Andhra, Bengali, Goan, Kerala, Lucknowi, Malwani) | Bijoli Grill (Bengali) | Kansar Kathiyawadi Thali (Gujarati) |
| Konkan Swad (Konkan) | Littoo (Bihari) | Madras Diaries (Kerela) |
| O' Pedro (Goan) | O' Tenga (Assamese) | Odisha Bhavan (Oriya) |
| Oota (Karnataka) | Sindhful (Sindhi) | The Tha'l Co (Bohri) |

POST CONTACT AND FURTHER INFORMATION

For further information about the quick service and casual dining market in India, please contact the following USDA offices in India.

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