

Strategic Merger of Devyani International Ltd (DIL) & Sapphire Foods India Ltd (SFIL)

Independent Fairness Opinion for the
Board of Directors



Date: January 10, 2026

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Transaction Summary & Deal Structure



Transaction & Consideration

- Structured as a Merger by Absorption under Sections 230-232 of the Companies Act, 2013. Sapphire Foods India Limited (SFIL) will dissolve without winding up, and all assets/liabilities will transfer to Devyani International Limited (DIL).
- Form of Consideration: 100% Stock-for-Stock swap mechanism. No cash consideration will be paid to public shareholders, preserving liquidity for future CapEx.
- Agreed Exchange Ratio: Shareholders of SFIL will receive 177 equity shares of DIL for every 100 equity shares held in SFIL.



Valuation & Control

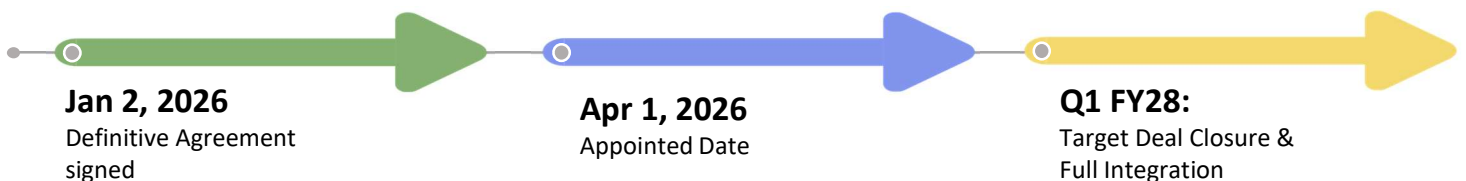
- Implied Valuation: Based on DIL's pre-announcement price of ~₹148, the deal implies an offer price of ₹261.96 per SFIL share.
- Control Consolidation: Prior to the merger, Arctic International (DIL Promoter entity) will acquire an ~18.5% strategic stake in SFIL from existing PE investors to maintain majority promoter control post-merger.



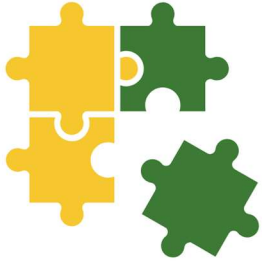
Regulatory & Timeline

- Regulatory Status: Definitive agreement signed on January 2, 2026. Consummation is subject to approvals from the Competition Commission of India (CCI), NCLT, and Stock Exchanges.
- Key Consents: Global franchisor Yum! Brands Inc. has explicitly granted consent, moving toward a unified "National Champion" model in India.

Deal Timeline



Strategic Rational – The ‘Power of One’ Thesis



Creation of a National Champion

This merger will bring all Yum! Brands’ India franchise operations under one strong company. After the merger, KFC and Pizza Hut across India will be controlled by a single, dominant player, making operations simpler and stronger.



Targeted Annual Synergies

Management expects **₹210–₹225 Crore** of yearly cost savings by FY29, mainly from better efficiency and scale.

Synergy Components



Supply Chain & Procurement

- By combining purchases of both companies, the merged entity will have ₹2,500+ Crore of annual procurement spend. This larger scale will help: Get better prices from suppliers, Improve cold-chain and logistics efficiency, Reduce overall food and input costs



Corporate Cost Reduction

- Costs will come down by: Removing duplicate senior management roles, Using one head office instead of two, Saving costs after Sapphire Foods is delisted



Technology & Digital Integration

- The merged company will: Use one common ERP and technology platform, Spread fixed IT costs across 3,200+ restaurants, This will reduce per-store technology costs and improve efficiency.

Supply Chain & Procurement

30%

Corporate Cost Reduction

40%

Technology & Digital Integration

30%



Revenue Synergies

A single national marketing and pricing strategy will be implemented. This will: Improve advertising effectiveness, Increase return on advertising spend (ROAS), Ensure consistent pricing and promotions across India



Competitive Defense

The merger will create a strong balance sheet. This will help the company compete better against Food delivery platforms, Domino’s (Jubilant FoodWorks) by allowing higher investment in growth, marketing, and pricing power.

Company Profile – Acquirer Vs Target

Devyani International Limited (DIL) – The Buyer



Who They Are

Devyani International is part of the RJ Corp Group, led by Ravi Jaipuria, a well-known name in India's food and beverage industry.



Store Network

As of 30 September 2025, the company operates 2,184 restaurants, making it one of the largest QSR operators in India.



Where They Operate

DIL has a strong presence in North and East India and is also expanding internationally in countries like Nigeria and Nepal.



Brands They Run

Franchisee for KFC and Pizza Hut in India (non-exclusive)
Exclusive master franchisee for Costa Coffee in India



Financial Performance

In Q2 FY26, the company reported:
Revenue of ₹1,377 Crore
EBITDA margin of 14.1%



Market Standing

Market value of around ₹18,265 Crore
Known for fast store expansion and strong execution backed by an experienced promoter.

Sapphire Foods Indian Limited (SFIL) – The Com Being Acquired



Who They Are

Sapphire Foods is a professionally managed company, originally backed by Private Equity investors such as Samara Capital and Goldman Sachs.



Store Network

As of Q2 FY26, the company operates 997 restaurants, with a strong focus on profitability at the store level.



Where They Operate

Sapphire has a strong presence in: South India (Tamil Nadu, Andhra Pradesh, Telangana – known as the “Chicken Belt”) Parts of West India, where QSR demand is high



International Business

Sapphire is a market leader in Sri Lanka, operating Pizza Hut and Taco Bell. This international business generates stable and high-margin profits.



Financial Performance

In Q2 FY26, the company reported:
Revenue of ₹740 Crore
EBITDA margin of 14.3%



Market Standing

Market value of around ₹8,121 Crore.
Known for strong operations, disciplined cost control, and efficient restaurant management.

Valuation Summary (Football Field Analysis)



Intrinsic Value (DCF)

₹39 ₹55 ₹81

Fair Value between 39 and 81 per share

Base Value 55

Market price reflect future growth expectation and brand value not fully in current cash flow



Relative Valuation (Trading Comparables)

₹252 ₹265

Implied share value between ₹252(EBITDA) and ₹265

Average of about ₹265

Compare with peers like Jubilant and Westlife, Showing reasonable current valuation



Historical Market Performance (52-Week Range)

₹222 ₹262

52 week trading range between ₹222 and ₹262

Mid point in somewhere ₹242

Consistent market valuation within this range

₹0 ₹50 ₹100 ₹150 ₹200 ₹250 ₹300 ₹350

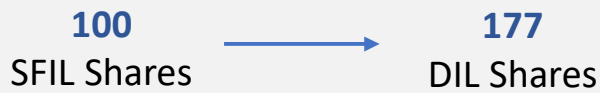
Valuation Conclusion

- Offer Price of ₹261.96 is close to the 52-week high and end peer comparison average
- Well aligned with market levels
- Although higher than DCF value, it is fair relative to peers and market pricing.
- Reflect expected growth and strategic benefits

Transaction Analysis

Exchange Ratio:

- As per the deal terms, for every 100 shares of Sapphire Foods (SFIL), shareholders will receive 177 shares of Devyani International (DIL).



Exchange Ratio: 177:100

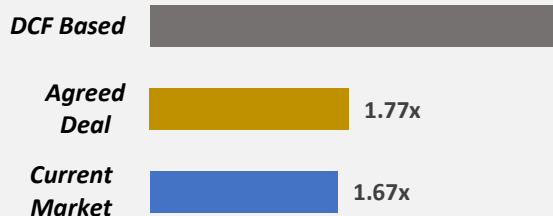
Implied Offer Price:

- Using DIL's share price of ₹148 before the deal announcement, the implied value of SFIL works out to **₹261.96 per share**.

DIL Shares Price (₹148)	×	Exchange Ratio (1.77)	=	Implied SFIL Price (₹261.96)
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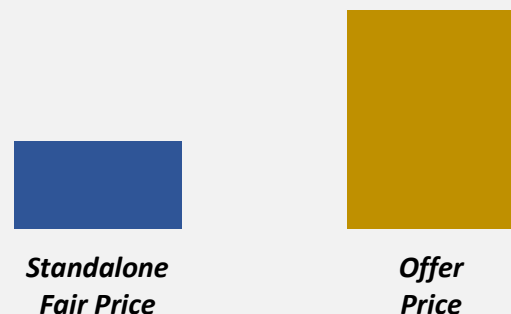
Benchmark Comparison:

- Based on current market prices, the exchange ratio is around **1.67x**, while the agreed deal ratio is slightly higher at **1.77x**. In comparison, the DCF-based ratio is much higher at **3.63x**, showing that the deal is more aligned with market pricing than optimistic long-term assumptions.



Premium Assessment:

- This offer price is only about **4%** higher than our estimated standalone fair value of SFIL at **₹251.8**, which means the premium being paid is very small and reasonable.



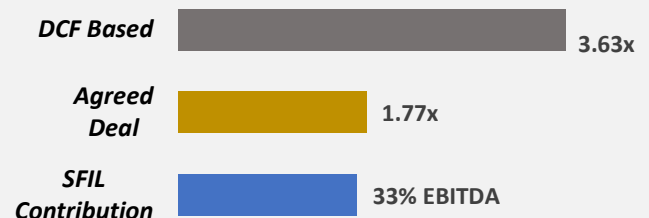
Strategic Control

- Before completing the merger, Arctic International, the promoter group of DIL, will acquire around 18.5% stake in SFIL from existing private equity investors to ensure that promoter ownership in the combined company remains strong at about 48–52% after the transaction.



Contribution Analysis:

- The merger is structured in a balanced way, where SFIL contributes about **33%** of the combined EBITDA, and in return, its shareholders will own roughly **33–35%** of the merged company, making the deal contribution-neutral.



Accretion & Dilution Analysis- Impact on EPS

↑ Pro Forma EPS Impact

After the merger and once cost savings are achieved, the combined company's earnings per share (EPS) are expected to increase by about 4.5% compared to Devyani International's standalone earnings.

EPS Accretion: **+4.5%**

📊 Earning Comparison

Standalone DIL EPS:		Pro Forma Combined EPS:
↓ ₹ 1.32		↑ ₹ 1.38

EPS Increase: ₹ 0.06 per share

⚙️ Synergy Sensitivity

Base Case	Upside Case
Swap Ratio: 1.77x	Swap Ratio: 1.77x
Synergies: ₹225 Cr	Synergies: 260
EPS Accretion: ↑ 4.5%	EPS Accretion: ↑ 16.8%

🕒 Short Term Impact (FY27)

In the initial year after the merger, EPS may temporarily decline because the total number of shares increases and Sapphire currently has losses, which affects short-term profitability during the integration phase.

📈 Medium to Long Term Impact (FY28) onward

From FY28 onwards, earnings improvement is mainly driven by expected annual synergies of ₹225 crore, which support stronger profitability for the combined company.

🐷 Tax Benefits

The merged company will also benefit from Sapphire's accumulated tax losses, which will reduce cash taxes in the coming years and help improve net income over the medium term.

Industry Benchmarking – The New Leaderboard

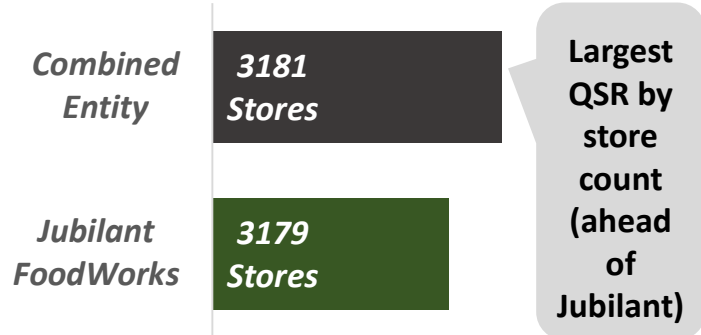


Creation of Category Leader

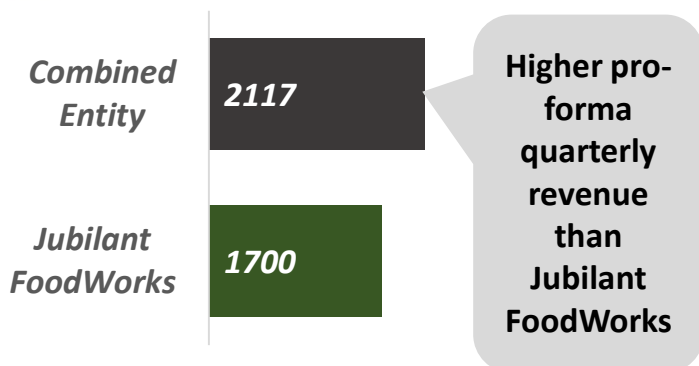
- This merger creates a very large and powerful company that matches or even surpasses the current market leader on key metrics, and it significantly changes the competitive structure of India's QSR (Quick Service Restaurant) market.



Store Scale Comparison



Revenue Leadership



Market Positioning

- The combined company will be the clear market leader in the chicken category, with a near-dominant position in bone-in fried chicken,
- second-largest position in the pizza segment, just behind Domino's.



Market Improvement Opportunity

- The merged company's current blended EBITDA margin is about 14.2%, which is lower than Jubilant's 20.0%.
- Closing the margin gap via cost savings and efficiency can drive stock re-rating



Market Capitalization and Liquidity

- With a combined market capitalization of around ₹26,600 crore, the merged entity becomes a large, liquid, and attractive investment opportunity for global institutional investors.

Material Risk & Red Flags



Regulatory Risk (CCI Approval)

After the merger, the combined company will control almost all KFC and Pizza Hut stores in India, which may attract close review from the Competition Commission of India (CCI). Approval may come with conditions, such as rules to ensure fair competition with other QSR players.



Cultural Integration Risk

Devyani International follows a promoter-led, top-down management style, while Sapphire Foods operates in a more professional, private equity-driven manner. This difference in working culture could lead to loss of key mid-level employees if not managed carefully, especially in South India.



Franchise Agreement Risk

Although Yum! Brands has approved the merger, it still has strong control through franchise agreements. Yum! may ask for higher royalty payments or push for faster store expansion, which could pressure future profitability.



Pizza Hut Business Risk

Both companies currently have underperforming Pizza Hut stores, and after the merger, around 800–900 such stores will come under one company. If this business does not improve, it could continue to reduce overall returns for the combined company.



Geographic and Currency Risk

Sapphire Foods has meaningful operations in Sri Lanka, which exposes the merged company to risks related to political instability and currency fluctuations that could impact financial performance.



Synergy Execution Risk

A key part of the merger's value depends on achieving ₹225 crore in planned cost savings. If integration takes longer than expected or execution falls short, the expected earnings benefits may not be fully realized.

Final Recommendation (fairness Value)



Overall Fairness Conclusion

Based on our independent financial analysis and strategic review, we conclude that the merger of Sapphire Foods (SFIL) into Devyani International (DIL) is fair for the equity shareholders of both companies.



Valuation Justification

- The implied offer price of ₹261.96 falls within the trading comparable range of ₹252 to ₹279.
- That the exchange ratio is fair and aligned with current market valuations.



Strategic Rationale

- The merger creates a strong national platform for Yum! Brands in India.
- Giving the combined company clear leadership in the chicken category and stronger bargaining power with suppliers and partners.



Earnings and Value

- Although the merger may reduce earnings in the short term, it is expected to increase EPS by about 4.5% by FY28.
- Supported by achievable annual cost synergies of ₹225 crore.



Shareholder Benefits (SFIL & DIL)

- **SFIL Shareholders:** Receive shares of a larger, liquid, well-known listed company and exit a PE-dominated structure **DIL Shareholders:** Access South India growth and Sri Lanka cash flows with no cash outflow



Final Recommendation

We recommend that the Boards of Directors and shareholders approve and proceed with the proposed Scheme of Arrangement.