December 18, 2023

Haldiram Manufacturing Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term - Fund based/CC	35.00	35.00	[ICRA]A+ (Stable); reaffirmed
Short term - Non fund based/BG	11.00	11.00	[ICRA]A1+; reaffirmed
Total	**46.00**	**46.00**	

**Instrument details are provided in Annexure-I*

Rationale

For arriving at the ratings, ICRA has taken a consolidated view of the four entities – Haldiram Manufacturing Company Private Limited (HMCPL), Haldiram Marketing Private Limited (HMPL), Haldiram Products Private Limited (HPPL) and Haldiram Ethnic Foods Private Limited (HEFPL), given the strong operational and financial linkages among the entities.

The ratings reaffirmation favourably factors in the benefits derived by the entities for being a part of the Haldiram Delhi Group, along with strong recognition and customer acceptance of the Haldiram's brand in sweets, namkeens and restaurants business in North India. Moreover, the Group's operating income (OI) rose 34% to Rs. 1,812 crore in FY2023 from Rs. 1,350 crore in FY2022 owing to its brand strength, addition of regular outlets and healthy same store sales growth. The Group is expected to report healthy growth in the current year as well. Further, the inherently low working capital intensity of the B2C business (given the cash-and-carry sales and the perishable nature of the inventory) and minimum reliance on external long-term debt result in comfortable debt protection metrics, as reflected by an interest coverage of 7.9 times, DSCR of 4.5 times and total debt/OPBDITA of 1.7 times for the year ended on March 31, 2023.

The ratings, however, are constrained by the intense competition in the restaurant business, especially the quick service restaurants (QSR) that constrain its pricing power, along with the quality-related risks prevalent in the food industry. Further, ICRA notes that given the relatively lower funding requirements of the business, the Group has a track record of using surplus funds to invest in other Group companies as well as making unrelated investments for inorganic growth. Nevertheless, these investments remain discretionary in nature. ICRA also notes that the Group has undertaken fair valuation exercise for its investments in the past, which shored up its net worth position significantly in the past few years.

While reaffirming the ratings, ICRA has noted the Group's plans for the merger to optimise and leverage the resources of all the companies and to upscale the QSR business from one entity. ICRA will continue to monitor the same and take appropriate rating action, as and when required.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that the Group's financial risk profile will remain strong, led by healthy profitability and limited reliance on external debt obligations. Its investments are expected to be made from surplus cash flows only, with no impact likely on the Group's liquidity and leverage.

Key rating drivers and their description

Credit strengths

Strong recognition of Haldiram brand in North India's packaged snacks, food and restaurant business – The Haldiram brand is well recognised in the packaged snacks and QSR industry. It enjoys good brand recognition and customer acceptance in northern India. Supported by its operational strength, the Group has been steadily increasing the number of outlets. This has expanded its market reach and supported a healthy growth in its operating income. The Group's revenues surged by 34% to

Rs. 1,812 crore in FY2023 from Rs. 1,350 crore in FY2022. The Group is expected to report a steady growth in its revenues for FY2024 as well.

Inherently low working capital intensity of operations – The working capital intensity of the business is inherently low. The entities maintain low inventory as food items are perishable in nature. Besides, restaurant sales are made on a cash basis, which reduces the receivable level as well.

Comfortable financial risk profile – The Group's financial risk profile is comfortable, as reflected by an interest coverage of 7.9 times, DSCR of 4.5 times and NCA/Total Debt of 54% in FY2023 on account of limited reliance on external long-term debt obligations. In addition, the ratings draw comfort from the Group's adequate liquidity position.

Financial flexibility for being a part of Haldiram Group – The Group enjoys financial flexibility for being a part of the Delhi-based Haldiram Group, led by Mr. Manohar Lal Agarwal. The major companies in the Haldiram Group include Haldiram Snacks Private Limited (HSPL), HMCPL, HMPL, HPPL and HEFPL. The Group has a demonstrated track record of extending regular and timely funding support across Group entities, depending on the requirements.

Credit challenges

Competition from local manufacturers and established players – The Group faces competition from other players in the market in spite of having an established brand. It remains exposed to intense competition from local manufacturers of sweets and namkeens, other restaurant operators, and established QSR chains such as McDonalds, Dominos, KFC etc.

Exposed to quality and reputation risks – Given the Group's operations in the food industry, risks related to quality and reputation remain high.

Liquidity position: Adequate

The Group's liquidity position is adequate, with expected cash flow from operations remaining sufficient to meet the debt servicing obligations as well as the margin funding requirements for capex and working capital. Moreover, inherently low working capital intensity of the business provides comfort. The Group's adequate liquidity position is also corroborated by its comfortable cushion in the form of undrawn fund-based working capital limits. The available undrawn limits stood at more than ~Rs. 100 crore as on September 30, 2023.

Rating sensitivities

Positive factor – The long-term rating may be upgraded if the Group demonstrates a healthy and sustained improvement in its scale and operating profitability.

Negative factor – Pressure on the Group's ratings could arise if there is weakening of linkages with the Haldiram Group or any significant debt-funded capex/investments that result in a sustained deterioration in its financial metrics and liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	The ratings assigned factor in the likelihood that the Haldiram Delhi Group Companies would extend financial support to each other because of close business linkages among the Group companies.
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated the financials of HMCPL, HMPL, HPPL and HEFPL, given the strong operational and financial linkages among the entities.

About the company

HMCPL is a part of the Haldiram Delhi Group, promoted by Mr. Manohar Agarwal. The Group's first outlet was opened in Chandni Chowk in Central Delhi in 1969, where it started selling traditional Indian sweets and namkeens. Over the years, the Group's operations have expanded and it now sells packaged namkeens and sweets throughout northern India. As on September 30, 2023, the Group operates more than 120 outlets across Haryana, Delhi, Punjab and Himachal Pradesh.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	1,349.6	1,812.3
PAT	52.1	60.8
OPBDIT/OI	8.3%	8.5%
PAT/OI	3.9%	3.4%
Total outside liabilities/Tangible net worth (times)	0.3	0.2
Total debt/OPBDIT (times)	1.4	1.7
Interest coverage (times)	10.6	7.9

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

HMCPL Standalone	FY2022	FY2023
Operating income	608.6	718.7
PAT	42.2	54.1
OPBDIT/OI	7.7%	9.4%
PAT/OI	6.9%	7.5%
Total outside liabilities/Tangible net worth (times)	0.1	0.1
Total debt/OPBDIT (times)	0.5	0.7
Interest coverage (times)	19.4	16.8

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years				
		Type	Amount rated (Rs. crore)	Amount outstanding As on Sep 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023			Date & rating in FY2022	Date & rating in FY2021
					Dec 18, 2023	Mar 30, 2023	Dec 26, 2022	Aug 4, 2022	May 13, 2021	-
1	**Cash Credit**	Long Term	35.00	-	**[ICRA]A+ (Stable)**	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	-
2	**Bank Guarantee**	Short Term	11.00	-	**[ICRA]A1+**	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based/Cash Credit	Simple
Short Term-Non Fund Based/Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	**Cash Credit**	-	-	-	35.00	[ICRA]A+ (Stable)
NA	**Bank Guarantee**	-	-	-	11.00	[ICRA]A1+

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis

Entity Name	Ownership	Consolidation Approach
Haldiram Manufacturing Company Private Limited	-	Full Consolidation
Haldiram Marketing Private Limited	-	Full Consolidation
Haldiram Products Private Limited	-	Full Consolidation
Haldiram Ethnic Foods Private Limited	-	Full Consolidation

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About ICRA Limited:

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