

August 04, 2022

## Haldiram Manufacturing Company Private Limited: Ratings reaffirmed

### Summary of rating action

| Instrument*                    | Previous Rated Amount<br>(Rs. crore) | Current Rated Amount<br>(Rs. crore) | Rating Action                 |
|--------------------------------|--------------------------------------|-------------------------------------|-------------------------------|
| Long Term - Fund Based/CC      | 15.00                                | 15.00                               | [ICRA]A+ (Stable); reaffirmed |
| Short Term - Non Fund Based/BG | 10.00                                | 10.00                               | [ICRA]A1+; reaffirmed         |
| <b>Total</b>                   | <b>25.00</b>                         | <b>25.00</b>                        |                               |

\*Instrument details are provided in Annexure-I

### Rationale

The ratings reaffirmation favourably factors in the benefits derived by Haldiram Manufacturing Company Private Limited (HMCPL) 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. HMCPL's operating income (OI) witnessed a comfortable CAGR of 11% at Rs. 609 crore in FY2022 (provisional estimated [PE]) against Rs. 299 crore in FY2016 owing to its brand strength, addition of regular outlets, healthy same-store sales growth and consistent growth in manufacturing revenues. While reaffirming the ratings, ICRA has also noted healthy recovery in the company's OI in FY2022 (29% YoY growth), following the pandemic-induced decline in the previous year. 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 the absence of external long-term debt obligations result in strong debt protection metrics, as reflected by an interest coverage of 38.2 times, DSCR of 13.7 times and total debt/OPBDITA of 0.4 times for the year ended March 31, 2022 (PE).

The ratings, however, are constrained by the intense competition in the restaurant business, especially the quick service restaurants (QSR) that constrain pricing power, and quality-related risks prevalent in the food industry. Further, ICRA notes that given the relatively low funding requirements of the business, the company has a track record of using surplus funds to invest in Group companies as well as make unrelated investments for inorganic growth. Nevertheless, these investments remain discretionary in nature. ICRA also notes that the company has undertaken fair valuation exercise for its investments in the past, which has shored up its net worth position significantly after FY2018.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that HMCPL's financial risk profile will remain strong, led by healthy profitability and absence of external debt obligations. Limited capex requirements in the business together with low working capital intensity are expected to keep the company's reliance on debt low and cash flows robust. Investments are expected to be made from surplus cash flows only, with no impact likely on the company'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. Further, HMCPL has been steadily increasing the number of its outlets to expand its market reach. Besides, robust same-store sales increase from the existing outlets (61% YoY in FY2022, PE) supported healthy growth in its OI in FY2022.

**Inherently low working capital intensity of operations** – The working capital intensity of the business is inherently low. The company maintains low inventory as food items are perishable in nature. Besides, restaurant sales are made on a cash basis, reduces the receivables levels as well.

**Strong financial risk profile** – HMCPL has a strong financial risk profile, characterised by a conservative capital structure due to absence of external long-term debt obligations (with total debt/OPBDITA of 0.4 times for FY2022, PE) and healthy debt coverage metrics (with interest cover of more than 38 times and DSCR of more than 13 times in FY2022, PE).

### Credit challenges

**Competition from local manufacturers and established players** – HMCPL faces competition from other players in spite of having a well-established brand. The company 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.

**Uncertainty over utilisation of surplus funds** – Given the relatively limited funding requirements of HMCPL, these surplus funds may be advanced to the Group companies or used for acquisition of other entities for inorganic growth, as witnessed in the past. The quantum, nature and associated risks with deployment of these surplus funds are not known.

**Exposed to quality and reputation risks** – Given the company's operations in the food industry, risks regarding quality and reputation remain high.

### Liquidity position: Strong

HMCPL's liquidity profile remains **strong** on account of healthy profitability, inherently low working capital intensity of the business and absence of external long-term debt liabilities. Moreover, the fund-based limits remain primarily unutilised, enhancing the company's liquidity profile.

### Rating sensitivities

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

**Negative factor** – Pressure on HMCPL's ratings could arise if there is weakening of linkages with the Haldiram Group or if there is a sustained deterioration in its financial metrics including decline in profitability, muted/fall in revenue growth and any significant debt-funded capex/investments that impacts its leverage profile and debt coverage metrics.

### Analytical approach

| Analytical Approach             | Comments   |
|---------------------------------|--|
| Applicable rating methodologies | <a href="#">Corporate Credit Rating Methodology</a>  |
| Parent/Group support            | The ratings assigned to HMCPL factors in the reasonable likelihood of the Haldiram Delhi Group companies extending financial support to it because of close business linkages among the group companies. ICRA also expects the companies to be willing to extend financial support to HMCPL out of the need to protect the group's reputation from the consequences of a group entity's distress |
| Consolidation/Standalone        | The ratings are based on the standalone business and financial risk profiles of HMCPL.   |

### 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, when 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. At present, HMCPL operates 22 outlets across Gurgaon, Bhiwadi, Bawal and Delhi-Jaipur highway.

## Key financial indicators (Audited)

| HMCPL Standalone                                     | FY2021 | FY2022* |
|--|--------|---------|
| Operating income                                     | 471.8  | 608.5   |
| PAT  | 43.6   | 40.4    |
| OPBDIT/OI  | 9.9%   | 10.2%   |
| PAT/OI   | 9.2%   | 6.6%    |
| Total outside liabilities/Tangible net worth (times) | 0.1    | 0.1     |
| Total debt/OPBDIT (times)                            | 0.7    | 0.4     |
| Interest coverage (times)                            | 25.5   | 38.2    |

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

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

## Rating history for past three years

| Instrument       | Type       | Current rating (FY2023)  |                                | Chronology of rating history for the past 3 years |                         |                         |                         |
|------------------|------------|--------------------------|--------------------------------|---|-------------------------|-------------------------|-------------------------|
|                  |            | Amount rated (Rs. crore) | Amount outstanding (Rs. crore) | Date & rating in FY2023                           | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
|                  |            |                          |                                | Aug 4, 2022                                       | May 13, 2021            | -                       | Jan 13, 2020            |
| 1 Cash Credit    | Long Term  | 15.00                    | -                              | [ICRA]A+ (Stable)                                 | [ICRA]A+ (Stable)       | -                       | [ICRA]A+ (Stable)       |
| 2 Bank Guarantee | Short Term | 10.00                    | -                              | [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: [www.icra.in](http://www.icra.in)

#### Annexure I: Instrument details

| ISIN | Instrument Name | Date of Issuance | Coupon Rate | Maturity | Amount Rated (Rs. crore) | Current Rating and Outlook |
|------|-----------------|------------------|-------------|----------|--------------------------|----------------------------|
| NA   | Cash Credit     | -                | -           | -        | 15.00                    | [ICRA]A+ (Stable)          |
| NA   | Bank Guarantee  | -                | -           | -        | 10.00                    | [ICRA]A1+                  |

Source: Company

#### Annexure II: List of entities considered for consolidated analysis – Not applicable

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### Branches



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