August 30, 2022

Haldiram Marketing Pvt. Ltd.: Long-term rating reaffirmed and short-term rating reaffirmed and withdrawn; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based: Cash Credit	17.00	28.00	[ICRA]A (Stable); reaffirmed
Long Term - Fund Based: Term Loans	8.00	18.00	[ICRA]A (Stable); reaffirmed
Short Term - Non-Fund Based: Bank Guarantee	3.00	-	[ICRA]A1; reaffirmed and withdrawn
Total	**28.00**	**46.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation favourably factors in the benefits derived by Haldiram Marketing Pvt. Ltd. (HMPL) 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. Together with regular outlet additions, healthy same-store sales growth and consistent growth in manufacturing revenues facilitated a comfortable growth in the company's turnover over the years, corroborated by a 9% CAGR between FY2017 and FY2022 (provisional estimates [PE]). Further, the ratings continue to draw strength from the company's comfortable credit metrics, as reflected by an interest coverage of 7.4 times, DSCR of 3.4 times and total debt/OPBDITA of 1.6 times for the year ended March 31, 2022 (PE).

While reaffirming the ratings, ICRA has noted healthy recovery in the company's OI in FY2022 (51% YoY growth) despite the disruptions caused by the second wave of the pandemic in Q1 FY2022 following the Covid-induced decline in the previous year. Moreover, its operating margins improved to more than 11% in FY2022 (PE) from 3.2% in FY2020 on account of improved scale, reduction in fixed overheads and rent waiver received by the company. The rating also continues to factor in the inherently low working capital intensity of the company's B2C business (given the cash-and-carry sales and the perishable nature of the inventory), which supports its cash flows and liquidity position. This apart, the company continues to benefit from the financial flexibility for being a part of the established Haldiram Delhi Group and demonstrated track record of the promoters in extending financial support, as and when required.

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. 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 HMPL's financial risk profile will remain comfortable, led by steady profitability and limited external debt obligations. Moderate capex requirements in the business together with low working capital intensity are expected to keep the company's reliance on debt limited and cash flows robust.

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 strengths, HMPL has been steadily increasing the number of its outlets to expand its market reach. This has not only expanded its market reach but also supported the steady growth in its OI barring FY2021 when operations were disrupted due to the pandemic. After lockdown restrictions were lifted and operations reverted to normalcy, the company's growth surged by 51% to Rs. 312 crore in FY2022, albeit on a low base. This growth came despite some disruptions faced in Q1 FY2022 due to the second wave of the pandemic.

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, which reduces the receivable level.

Comfortable financial risk profile – The company's financial risk profile is comfortable, as reflected by an interest coverage of 7.4 times, DSCR of 3.4 times and NCA/Total Debt of 50% in FY2022 (PE) on account of limited reliance on long-term debt obligations. ICRA notes that the company has availed a medium-tenure loan (three-year loan) in the current fiscal for part funding of its capex requirements, owing to which the DSCR is expected to moderate in FY2023. Nevertheless, it is expected to remain comfortable. In addition, the rating draws comfort from the company's adequate liquidity position, its financial flexibility as part of the established Haldiram Delhi Group and demonstrated track record of the promoters in extending financial support, as and when required.

Financial flexibility for being a part of Haldiram Group – HMPL is a part of the Delhi-based Haldiram Group, led by Mr. Manohar Lal Agarwal. Other companies in the Haldiram Group include Haldiram Snacks Private Limited (HSPL), Haldiram Manufacturing Company Private Limited (HMCPL)[1], Haldiram Products Private Limited (HPPL)[2] and Haldiram Ethnic Foods Private Limited (HEFPL)[3]. 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 – HMPL faces competition from other players in spite of having an 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.

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

Liquidity position: Adequate

The company's liquidity position is adequate, corroborated by a cushion of ~Rs. 10 crore in its fund-based working capital limits as on June 30, 2022, and an average cushion of Rs. 4 crore for the six-month period ended in June 2022. Compared to this, the company has scheduled repayments of ~Rs. 5.2 crore on its term debt obligations in FY2023. This comes against a Rs. 15.5-crore term loan availed by the company in FY2023 for part funding its capex requirements. ICRA expects the company's retained cash flows to be sufficient for servicing the debt repayment obligations, as well as funding the margin requirements for planned capex. Comfort is also drawn from the financial flexibility, emanating from the track record of need-based fund infusion by the promoter/Group entities.

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[1] ICRA has [ICRA]A+ (Stable)/[ICRA]A1+ ratings outstanding for the Rs. 25-crore bank facilities of Haldiram Manufacturing Company Private Limited. For details, please refer to ICRA's website: www.icra.in

[2] ICRA has [ICRA]A (Stable)/[ICRA]A1 ratings outstanding for the Rs. 28-crore bank facilities of Haldiram Marketing Private Limited. For details, please refer to ICRA's website: www.icra.in

[3] ICRA has [ICRA]A (Stable) ratings outstanding for the Rs. 10-crore bank facilities of Haldiram Products Private Limited. For details, please refer to ICRA's website: www.icra.in

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 HMPL's rating could arise if there is weakening of linkages with the Haldiram Group or if there is a sustained deterioration in its financial metrics. Specific credit metric that could trigger a rating downgrade would be an interest cover of less than 6.00 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	[Corporate Credit Rating Methodology](#) [ICRA Policy on Withdrawal of Credit Ratings](#)
Parent/Group support	The ratings assigned to HMPL factor in the reasonable likelihood of the Haldiram Delhi Group companies extending financial support to it because of close business linkages among them. ICRA also expects the companies to be willing to extend financial support to HMPL 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 HMPL.

About the company

HMPL 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 now include the sale of packaged namkeens and sweets throughout northern India. At present, HMPL operates 24 outlets across South Delhi, Delhi Airport and Faridabad (Haryana).

Key financial indicators (Audited)

HMPL Standalone	FY2021	FY2022*
Operating income (Rs. Crore)	206.7	311.5
PAT (Rs. Crore)	1.0	5.7
OPBDIT/OI (%)	11.6%	11.5%
PAT/OI (%)	0.5%	1.8%
Total outside liabilities/Tangible net worth (times)	0.8	0.8
Total debt/OPBDIT (times)	2.8	1.6
Interest coverage (times)	4.5	7.4

*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	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on June 30, 2022 (Rs. crore)	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	Date & rating in FY2020
					Aug 30, 2022	May 13, 2021	-	Dec 31, 2019
1	Cash Credit	Long Term	28.00	-	**[ICRA]A (Stable)**	[ICRA]A (Stable)	-	[ICRA]A (Stable)
2	Term loan	Long Term	18.00	15.5	**[ICRA]A (Stable)**	[ICRA]A (Stable)	-	-
3	Bank Guarantee	Short Term	3.00	-	**[ICRA]A1; Withdrawn**	[ICRA]A1	-	[ICRA]A1

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based/Cash Credit	Simple
Long Term-Fund Based/Term Loan	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

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-	-	28.00	[ICRA]A (Stable)
NA	Term Loan	FY2023	-	FY2025	18.00	[ICRA]A (Stable)
NA	Bank Guarantee	-	-	-	3.00	[ICRA]A1; Withdrawn

Source: *Company*

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

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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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