March 30, 2023

# Haldiram Manufacturing Company Private Limited: Ratings reaffirmed; rated amount enhanced

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| Long Term - Fund Based/CC | 15.00 | 35.00 | [ICRA]A+ (Stable); reaffirmed/assigned |
| Short Term - Non Fund Based/BG | 10.00 | 11.00 | [ICRA]A1+; reaffirmed/assigned |
| **Total** | **25.00** | **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 Pvt. Ltd. (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 action 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) witnessed a healthy growth of 42% to Rs. 1,360 crore in FY2022 from Rs. 956 crore in FY2021 owing to its brand strength, addition of regular outlets and healthy same-store sales growth. The Group is also expected to report a 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 obligations result in comfortable debt protection metrics, as reflected by an interest coverage of 10 times, DSCR of 6.5 times and total debt/OPBDITA of 1.4 times for the year ended on March 31, 2022. The debt coverage indicators are expected to be at healthy levels in current fiscal as well.

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 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 make unrelated investments for inorganic growth. Nevertheless, these investments remain discretionary in nature. ICRA also notes that the Group has undertaken fair valuation exercise for their 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 the Group's financial risk profile will remain strong, led by healthy profitability and limited reliance on external debt obligations. 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. Supported by its operational strengths, the Group has been steadily increasing the number of outlets to expand the market reach. This has not only expanded its market reach, but also supported a healthy growth in its OI barring FY2021 when operations were disrupted due to the pandemic. The Group's growth surged by 42% to Rs. 1,360 crore in FY2022 after lockdown related restrictions were lifted and operations reverted to normalcy. This growth came despite some disruptions faced in Q1 FY2022 due to the second wave of the pandemic. The Group is expected to report a steady growth in its revenues for FY2023 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 10 times, DSCR of 6.5 times and NCA/Total Debt of 73% in FY2022 on account of limited reliance on external long-term debt obligations. In addition, the ratings draw comfort from the Group's strong liquidity position.

**Financial flexibility for being a part of Hadrian 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: Strong

The Group's liquidity position is **strong** on account of inherently low working capital intensity of the business. Moreover, the fund-based limits remain largely unutilised, enhancing the Group's liquidity profile.

## 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 results 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 factors in the reasonable likelihood of the Haldiram Delhi Group Companies extending 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, 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)

| Consolidated | FY2021 | FY2022 |
|---|---|---|
| **Operating income** | 956.3 | 1,359.7 |
| **PAT** | 44.8 | 52.1 |
| **OPBDIT/OI** | 10.0% | 8.3% |
| **PAT/OI** | 4.7% | 3.8% |
| **Total outside liabilities/Tangible net worth (times)** | 0.2 | 0.3 |
| **Total debt/OPBDIT (times)** | 1.8 | 1.4 |
| **Interest coverage (times)** | 7.9 | 10.0 |

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

| HMCPL Standalone | FY2021 | FY2022 |
|---|---|---|
| **Operating income** | 471.8 | 608.6 |
| **PAT** | 40.7 | 42.2 |
| **OPBDIT/OI** | 9.9% | 7.7% |
| **PAT/OI** | 8.6% | 6.9% |
| **Total outside liabilities/Tangible net worth (times)** | 0.1 | 0.1 |
| **Total debt/OPBDIT (times)** | 0.7 | 0.5 |
| **Interest coverage (times)** | 25.5 | 19.4 |

*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 (FY2023) | | | | | | Chronology of rating history for the past 3 years | | |
|---|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding (Rs. crore) | Date & rating in FY2023 | | | Date & rating in FY2022 | Date & rating in FY2021 | Date & rating in FY2020 |
| | | | | | Mar 30, 2023 | Dec 26, 2022 | Aug 4, 2022 | May 13, 2021 | - | Jan 13,2020 |
| 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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## ICRA Limited

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