

May 28, 2025

## Hardcastle Restaurants Private Limited: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous rated amount (Rs. crore)	Current rated amount (Rs. crore)	Rating action
Issuer Ratings	-	-	[ICRA]AA- (Stable); reaffirmed
Short-term – fund-based – working capital facilities	275.0	300.0	[ICRA]A1+; reaffirmed
Long-term – Interchangeable	(70.0)	(20.0)	[ICRA]AA- (Stable); reaffirmed
Short-term – Interchangeable	(25.0)	(15.0)	[ICRA]A1+; reaffirmed
Unallocated limits	25.0	-	-
<b>Total</b>	<b>300.00</b>	<b>300.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The reaffirmation of ratings considers expectation of an improvement in the financial profile of Hardcastle Restaurants Private Limited (HRPL), the licensee operator of McDonald's in the southern and western markets in India, supported by the likely recovery in demand, its strong brand recognition in the domestic and international markets, reputation as one of the largest quick service restaurants (QSR) chains globally and its professional management. HRPL has a long operational presence of more than 25 years in India, and a growing store count (438 numbers as of March 2025).

Over the last two fiscals, economic downturns and geopolitical headwinds led to negative same-store sales growth (SSSG) for the company, resulting in a modest revenue growth of 4-5%, despite a sizeable store addition, post the healthy revenue growth seen in FY2022 and FY2023. The operating margin moderated in FY2025 owing to negative SSSG, sizeable store additions, which tend to have higher marketing and advertising spends initially, and inflationary pressure. However, SSSG is expected to improve, going forward, on the back of likely revival in consumption on the back of recent income tax measures and interest rate cuts. Improved SSSG along with continued store additions is likely to result in a revenue growth of 10-15% in FY2026. The company's margins are expected to recover with improved SSSG and cost optimisation measures planned to be undertaken by the company.

Over the near-to-medium term, the company is expected to accelerate store expansion efforts with 160-180 additional stores to be opened by December 2027. ICRA understands that the company will largely fund the capex through internal accruals and has the flexibility to reconsider its store expansion programme based on future demand, to maintain the debt protection metrics. ICRA notes that HRPL generally enters long-term real estate deals for its stores (normally for over 20-25 years), which result in higher lease debt initially, but benefits in terms of any sharp buoyancy in future rent increase, given the long-contracted period.

The ratings remain constrained by the vulnerability of the company's earnings to raw material price variation in an inflationary regime, exposure to changing consumer preferences, execution risk from aggressive expansion plans, and their corresponding impact on the return on capital employed (RoCE) due to under absorption of fixed costs as stabilisation of the new stores entails a gestation period. The ratings also consider the fact that HRPL's business strength is completely reliant on McDonald's brand strength, and adherence to compliance norms laid out in the master franchise development agreement (MFDA) remains critical from the credit perspective. HRPL's profitability is also exposed to royalty payments to its principal, with any unanticipated rise in the same remaining a key rating monitorable. The ratings also consider increasing competition from players in the organised and unorganised markets.

The Stable outlook on the [ICRA]AA- rating reflects ICRA's opinion of steady growth in the company's revenues and earnings in the near-to-medium term, supported by the likely improvement in consumption trends, continued store expansion plans, and HRPL's position as one of the most recognised burger brands with a wide range of offerings.

## Key rating drivers and their description

### Credit strengths

**Strong brand presence globally with master franchise agreement with one of the world's largest QSR brands** – HRPL holds the master franchise agreement with McDonald's Corporation, a leading global food service brand with more than 43,000 restaurants in 114 countries (as of December 2024). Leveraging the strength of the McDonald's brand, HRPL benefits from global best practices, robust supply chain management ensuring consistent taste and quality across outlets, and the ability to attract customers through diverse product offerings, including brand extensions like McCafé, McBreakfast and McDelivery, etc, with an established network of stores and delivery partners.

**Exclusive franchise to operate in West and South India** – HRPL has the exclusive franchisee to operate the McDonald's chain of restaurants in western and southern India, establishing a dedicated geographical presence limiting competition from other franchises of the same brand. As of March 2025, HRPL had a store count of 438 in the West and South India. HRPL follows a stringent model of store opening selection, driven by global directives, which include long leases of over 20-25 years, which ensure uninterrupted operations, coupled with favourable leasing conditions, given the long contractual period.

### Credit challenges

**Considerable planned capex over medium term to put pressure on RoCE** – The company's operating margins moderated over the past two fiscals owing to negative SSSG, increased costs towards the new stores and inflationary pressure. Muted consumer demand and geopolitical issues limited the scale-up of operations and affected SSSG. Decline in margins and material capex affected the company's return indicators in the past two years. While its margins are expected to improve going forward, the RoCE is likely to remain under pressure in the near term, given that the company has notable capex plans amid 160-180 store additions by December 2027. However, comfort is drawn from the company's flexibility to reconsider its store expansion programme based on future demand and evolving market dynamics. Therefore, going forward, HRPL's ability to ramp up the scale of operations and improve the earnings will be critical from the rating perspective and, hence, will remain a key monitorable.

**Compliance with terms and conditions as per MFDA remains critical** – Given that HRPL's business strength is completely reliant on the strong McDonalds brand, adherence to the terms and conditions of the MFDA remains utmost critical for the continuity of this brand strength. Under the MFDA with McDonald's Corporation, the company is also required to pay royalty as a percentage of its revenues, which stood at 5% in FY2025 and is slated to increase to 5.5% during FY2027-FY2028. Any sharp rise in royalty payments that materially impact its margins and overall credit profile, will remain a key monitorable.

**Intense competition from organised and unorganised players; operations exposed to inherent supply chain risks** – HRPL faces intense competition from unorganised as well as organised QSR players like Dominos, KFC and Burger King. The company's ability to sustain its growth and improve its profit margin amid intense competition will remain critical. Also, its sales are exposed to uncontrollable factors like disease outbreaks (Avian Influenza/ bird flu), disruption in supply chain due to lower produce quality and changing consumer preferences.

## Environmental and social risks

**Environmental considerations:** The QSR industry is exposed to environment protection, food safety, human rights, working and safety conditions, etc., and non-adherence to any of these would result in disruption in business operations, increased costs and compliance-related risks. The QSR industry is also exposed to environmental risks given the use of plastics in packaging, electricity and gas for cooking, and other production functions. The company has implemented mitigation measures, including energy-efficient systems in over 90% of stores, solar power adoption, and water-saving technologies resulting in significant resource savings. Waste is managed through elimination of single-use plastics and recycling of 99% of discarded cooking oil. Over 95% of the inputs are sustainably sourced, and food safety is ensured through regular audits and traceability systems.

**Social considerations:** The QSR industry faces challenges from the healthy food alternatives in the market today. Further, being a labour-intensive segment, shortage of skilled staff and high attrition can impact operations, food and services of the company, which can damage its reputation and customer base. HRPL conducts in-house learning and development programmes that are linked to career growth. In addition, the company prefers internal talent for new leadership positions, which incentivises the planning of long-term careers in the company. The industry is also exposed to significant risks related to the health and safety of customers. While these risks have not resulted in any material implication so far, any breaches in food standards at its outlets could have cost implications for the company.

## Liquidity position: Adequate

The liquidity of the company is adequate with a healthy buffer of over Rs. 410 crore in its working capital facilities and cash and bank balances of Rs. 58.9 crore as of March 2025. The company is expected to generate retained cash flows of around Rs. 240-250 crore in the next 12 months. HRPL has a lease obligation of Rs. 147 crore, external debt repayments of Rs. 8 crore and plans to incur a sizeable capex of around Rs. 240-250 crore in the next twelve months, which will be funded through internal accruals and cash and investment balances.

## Rating sensitivities

**Positive factors** – ICRA could upgrade HRPL's long-term rating if its revenues increase on the back of a continuous business expansion, along with profit margins, leading to improvement in coverage indicators as well as return indicators.

**Negative factors** – Any material decline in revenue growth, impacting the profitability and return indicators, can lead to ratings downgrade. Any unanticipated debt-funded capex, which impacts the credit metrics, or weakens the liquidity profile on a sustained basis, will also be a negative rating trigger. Specific trigger that might result in ratings downgrade includes DSCR of less than 1.50 times on a sustained basis.

## Analytical approach

Analytical approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

## About the company

Hardcastle Restaurants Private Limited (HRPL), established by the BL Jatia family in 1995 as a joint venture (JV) with the McDonald's Corporation, operates 438 McDonalds restaurants across western and southern India (as on March 31, 2025) under a master franchisee arrangement with McDonald's Corporation. After HRPL reached a milestone of 100 stores in FY2010, McDonalds sold its shares and exited the JV in FY2011. The stake was acquired by Mr. Amit Jatia, who was the majority shareholder in HRPL. In FY2013, Westlife Development Limited (WDL), which is now Westlife Foodworld Limited (WFL), became the holding company of HRPL through a reverse merger (HRPL became a 100% subsidiary of WFL) and WFL was listed on the stock exchange. As of March 2025, the promoters' holding in WFL stood at 56.23%. On a standalone basis, WFL does not have any commercial operations.

## Key financial indicators (audited)

HRPL	FY2024	FY2025*
Operating income	2,390.3	2,490.2
PAT	71.7	11.3
OPBDIT/OI	15.8%	12.9%
PAT/OI	3.0%	0.5%
Total outside liabilities/Tangible net worth (times)	3.0	3.4
Total debt/OPBDIT (times)	3.6	5.1
Interest coverage (times)	3.4	2.5

Source: Company, ICRA Research; \* Prov.; All ratios as per ICRA's calculations; Amount in Rs. Crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

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

## Any other information: None

## Rating history for past three years

Instruments	Current rating (FY2026)			Chronology of rating history for the past 3 years					
	Type	Amount rated (Rs. crore)	May 28, 2025	FY2025		FY2024		FY2023	
				Date	Rating	Date	Rating	Date	Rating
Issuer ratings	Long term	-	[ICRA]AA- (Stable)	-	-	Mar 31, 2024	[ICRA]AA- (Stable)	-	-
				-	-	Mar 05, 2024	[ICRA]AA- (Stable)	-	-
				-	-	Feb 20, 2024	[ICRA]AA- (Stable)	-	-
Fund based – working capital facilities	Short term	300.00	[ICRA]A1+	-	-	Mar 31, 2024	[ICRA]A1+	-	-
Interchangeable	Long term	(20.00)	[ICRA]AA- (Stable)	-	-	Mar 31, 2024	[ICRA]AA- (Stable)	-	-
Interchangeable	Short term	(15.00)	[ICRA]A1+	-	-	Mar 31, 2024	[ICRA]A1+	-	-
Unallocated limits	Long term/ Short term	-	-	-	-	Mar 31, 2024	[ICRA]AA- (Stable)/ [ICRA]A1+	-	-

## Complexity level of the rated instruments

Instrument	Complexity indicator
Issuer Ratings	Not Applicable
Short term – fund based – working capital facilities	Simple
Long term – Interchangeable	Simple
Short term – Interchangeable	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	Issuer Ratings	NA	NA	NA	-	[ICRA]AA- (Stable)
NA	Short term – fund based – working capital facilities	NA	NA	NA	300.00	[ICRA]A1+
NA	Long term – Interchangeable	NA	NA	NA	(20.00)	[ICRA]AA- (Stable)
NA	Short term – Interchangeable	NA	NA	NA	(15.00)	[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 – Not Applicable

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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.

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