April 06, 2017

Haldiram Products Private Limited

Instrument*	Rated Amount (in crore)	Rating Action
Fund based limits	16.5 (enhanced from Rs. 15.0 crore)	[ICRA]A- (stable); assigned/outstanding
Total	**16.5**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the rating of [ICRA]A- (pronounced ICRA A minus) on the Rs 16.5-crore[1] (enhanced from Rs. 15.0 crore) fund-based bank limits of Haldiram Products Private Limited (HPPL). The outlook on the long-term rating is stable.

Detailed rationale

The rating action takes into account the steady improvement in operating income and cash accruals as HPPL leverages its strong brand equity (Haldiram) by opening new stores and the operations in newly-opened stores stabilises. The rating reflects the strong image of "Haldiram" brand in sweets, namekeens and restaurants in Northern Capital Region of Delhi; HPPL's experienced promoters; and the strong financial profile of the Haldiram Delhi Group, as evident from its healthy consolidated turnover, profitability and adequate debt coverage indicators. The above factors have enabled consistent funding support to HPPL by the promoters. The rating also factors in the inherently low working capital intensity of the business, which has led to low reliance on external debt and thus healthy debt coverage metrics.

However, the rating is constrained by HPPL's moderate scale of operations and low profitability because of high overheads, especially rentals. Moreover, in FY2016, the profit was impacted by rampage in one of the outlets due to riots in the area. Although both operating income and profitability have witnessed a steady improvement over the years, the capex requirements for opening new outlets have resulted in consistent funding requirement, which is being met by the company's promoters. Furthermore, ICRA notes that opening of new outlets in close proximity of each other exposes the company to risks of sales cannibalisation. The rating is also constrained by the highly competitive nature of the restaurant business, which makes it challenging to consistently expand the customer base and pass on the raw material price increases to the customers Stiff competition has stagnated sales in matured outlets, resulting in low same store sales growth.

Going forward, stabilisation of sales in new outlets and the company's ability to improve its profitability would remain the key rating sensitivities.

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[1] *100 lakh = 1 crore = 10 million*

Key rating drivers

Credit strengths

- More than two decades of experience of the promoters in the snack foods industry
- Strong recognition for the 'Haldiram' brand in the sweets/namkeens, restaurants business
- Inherently low working capital intensity of the business
- Strong financial profile of the Haldiram Delhi Group[2], marked by healthy consolidated turnover and profitability
- Favourable demand outlook for the packed foods industry in the country driven by factors such as a large population base, increasing spending ability, and shift towards branded consumption
- Steady growth in the company's operating income driven by increase in number of outlets

Credit weakness

- Relatively moderate scale of operations
- Thin profitability on account of high overheads
- High industry competition makes it challenging to consistently expand the customer base and pass on the raw material price increase to the customers
- Being in the food industry, quality and reputational risks remain high

Detailed description of key rating drivers

HPPL is a part of Haldiram Delhi group of companies, whose promoters have been involved in the foods and namkeens manufacturing business since 1969. HPPL owns and operates twelve outlets, one each in Chandni Chowk, Moti Nagar, Connaught Place, Pitampura, Rohini, Subhash Nagar, Paschim Vihar, Tilak Nagar and Janakpuri in Delhi, along with Sonipat, Zirakhpur and Panipat in Haryana. "Haldiram' is an established brand in the packaged snacks and restaurants business and enjoys a strong presence and quality perception in northern India, which translates to ready foot-falls in any new outlet. However, it faces stiff competition from other established brands such as Bikanervala in addition to competition from local players offering similar products.

In order to leverage its brand image and capture the robust growth witnessed in the food industry, HPPL has been proactive in opening new outlets. Out of the twelve stores operated by the company, the older stores of Chandni Chowk, Moti Nagar, Pitampura and Connaught Place have matured and sales growth is limited to price increase; while majority of the new stores are in the initial stabilisation phase.

With increase in sales from new outlets, the operating income of the company witnessed a healthy growth of 11% from Rs. 144.0 crore in FY2015 to Rs. 159.4 crore in FY2016. The operating margins of the company continued to remain weak at 5.8% in FY2016. The low margin in the restaurant business can be attributed to high rentals and employee expenses. Additionally, increasing competition in the foods business and high spoilage in the quest of maintaining good quality have also resulted in pressure on the margins.

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[2] *The ICRA rated companies in the group are –Haldiram Snacks Pvt. Ltd. (rated [ICRA]AA (stable)/A1+) and Haldiram Manufacturing Co. Pvt. Ltd. (rated [ICRA]A+ (stable)/A1+)*

The capital structure of the company witnessed deterioration with addition of unsecured loans as reflected in the gearing of 2.34 times as on March 31, 2016 vis-à-vis 1.79 times as on March 31, 2015. The coverage indicators remained adequate with interest coverage of 8.63 times, NCA/TD of 22%, and debt/OPBDITA of 3.47 times as on March 31, 2016.

Analytical approach: For arriving at the rating, ICRA has taken into account, the business and financial risk profile of Haldiram Products Private Limited

Links to applicable criteria: [Corporate Credit Rating Methodology]

About the company:

Haldiram Products Private Limited (HPPL) is a part of the Haldiram Delhi Group, promoted by Mr. Manohar Agarwal. The group's first outlet was in Chandni Chowk in Central Delhi in 1969, where it selling traditional Indian sweets and namkeens. Over the years, the group's operations have expanded and now include sale of packaged namkeens and sweets throughout northern India.

In FY2016, the company reported a profit after tax (PAT) of Rs. 0.5 crore on an operating income of Rs. 159.4 crore vis-à-vis PAT of Rs. 0.6 crore on an operating income of Rs. 144.0 crore in FY2015.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for last three years:

Table: Rating History

S. No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Amount outstanding (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	Date & Rating in FY2014
				April 2017	December 2016	November 2015	September 2014	November 2013
1	Fund based limits	Long Term	16.5	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]BBB+(Stable)	[ICRA]BBB+(Stable)

Complexity level of the rated instrument:
ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instrument

Name of the instrument	Date of issuance	Coupon rate	Maturity Date	Size of the issue (Rs. Cr)	Current Rating and Outlook
Fund based limits CC	-	-	-	16.5	[ICRA]A- (Stable)

Name and Contact Details of the Rating Analyst(s):

Sabyasachi Majumdar
+91-124-4545304
sabyasachi@icraindia.com

Ankit Jain
+91-124-4545865
ankit.jain@icraindia.com

Harsh Jagnani
+91-124-4545394
harshj@icraindia.com

Name and Contact Details of Relationship Contacts:
Jayanta Chatterjee
+91-80-43326401
jayantac@icraindia.com

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For more information, visit **www.icra.in**

Registered Office
ICRA Limited
1105, Kailash Building, 11th Floor, 26, Kasturba Gandhi Marg, New Delhi 110001
Tel: +91-11-23357940-50, Fax: +91-11-23357014

Corporate Office
Mr. Vivek Mathur
Mobile: +**91 9871221122**
Email: vivek@icraindia.com

Building No. 8, 2nd Floor, Tower A, DLF Cyber City, Phase II, Gurgaon 122002
Ph: +91-124-4545310 (D), 4545300 / 4545800 (B) Fax; +91- 124-4050424

Mumbai **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 3rd Floor, Electric Mansion Appasaheb Marathe Marg, Prabhadevi Mumbai—400025, Board : +91-22-61796300; Fax: +91-22-24331390	**Kolkata** **Mr. Jayanta Roy** Mobile: **+91 9903394664** Email: jayanta@icraindia.com A-10 & 11, 3rd Floor, FMC Fortuna 234/3A, A.J.C. Bose Road Kolkata—700020 Tel +91-33-22876617/8839 22800008/22831411, Fax +91-33-22870728
Chennai **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 5th Floor, Karumuttu Centre 634 Anna Salai, Nandanam Chennai—600035 Tel: +91-44-45964300; Fax: +91-44 24343663	**Bangalore** **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 'The Millenia' Tower B, Unit No. 1004,10th Floor, Level 2 12-14, 1 & 2, Murphy Road, Bangalore 560 008 Tel: +91-80-43326400; Fax: +91-80-43326409
Ahmedabad **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 907 & 908 Sakar -II, Ellisbridge, Ahmedabad- 380006 Tel: +91-79-26585049, 26585494, 26584924; Fax: +91-79-25569231	**Pune** **Mr. L. Shivakumar** Mobile: +**91 9821086490** Email: shivakumar@icraindia.com 5A, 5th Floor, Symphony, S.No. 210, CTS 3202, Range Hills Road, Shivajinagar,Pune-411 020 Tel: + 91-20-25561194-25560196; Fax: +91-20-25561231
Hyderabad **Mr. Jayanta Chatterjee** Mobile: +**91 9845022459** Email: jayantac@icraindia.com 4th Floor, Shobhan, 6-3-927/A&B. Somajiguda, Raj Bhavan Road, Hyderabad—500083 Tel:- +91-40-40676500	