

Haldiram Products Private Limited

May 06, 2019

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities	16.5	10.0	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Unallocated Limits	-	6.5	[ICRA]A (Stable); Upgraded from [ICRA]A- (Stable)
Total	16.5	16.5	

**Instrument details are provided in Annexure-1*

Rationale

The rating action factors in the continued healthy growth in Haldiram Products Private Limited's (HPPL) operating income (OI) (17% in FY2019) and consistent improvement in profitability, driven by focus on opening outlets in favourable locations as well as cost control measures. The operating margins improved to 6.9% in FY2018 from 6.4% in FY2017 and the same trend is likely to continue in FY2019. Further, the rating factors in HPPL's experienced promoters and the strong image of the Haldiram's brand in sweets, *namkeens* and restaurants in North India. HPPL leverages on the same by opening new stores to expand its geographical reach. The rating takes into account the strong financial profile of the Haldiram Delhi Group as evidenced by its healthy consolidated turnover, profitability and adequate coverage indicators. Moreover, the rating also factors in the company's inherently low working capital intensity in the business.

The rating, however, is constrained by the intense competition in the restaurant business, which makes it challenging for the company to consistently expand its customer base and pass on the increase in raw material prices. This has been the case with the mature outlets of HPPL that have demonstrated low same-store sales growth. Further, despite steady improvement, the profitability remains low on account of high overheads, especially rentals and employee costs. Moreover, the capex requirements for opening of new stores resulted in consistent funding requirements, which are being met by the promoters in the form of unsecured loans. This resulted in a leveraged capital structure with a gearing of 1.8 times as on March 31, 2018.

Going forward, the stabilisation of sales in new outlets and the company's ability to continually improve its profitability along with growth in sales, maintaining its reputation and quality will remain the key rating sensitivities.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that HPPL will continue to benefit from Haldiram's strong brand equity in North India. With steady increase in the number of outlets, HPPL's OI is expected to grow steadily.

Key rating drivers

Credit strengths

Steady increase in number of outlets supporting growth in OI – HPPL has been increasing the number of its outlets, which is not only expanding its market reach but is also supporting the growth in its OI. The total number of outlets managed by the company stood at 16 as on March 31, 2019.

Extensive experience of promoters – HPPL’s promoters, Mr. Madhusudan Agarwal and his family members, have more than 15 years of experience in the restaurant business.

Strong recognition of Haldirams brand in North India’s packaged snacks foods and restaurant business – The Haldirams brand is well recognised in the packaged snacks and restaurant industry and enjoys good brand recognition and customer acceptance in northern India. However, it faces stiff competition from other established brands as well as local players.

Inherently low working capital intensity of operations – The working capital intensity in the business inherently remains low. Due to the perishable nature of inventory, the company’s overall inventory levels remains low, which coupled with restaurant sales, primarily made on a cash basis, reduces the receivable levels.

Strong financial profile of the Haldiram Delhi Group characterised by healthy turnover and profitability – HPPL benefits as a part of the Haldiram Delhi Group. The flagship company of the Group, Haldiram Snacks Private Limited (rated [ICRA]AA (Stable)), has healthy turnover and profitability as well as robust debt protection metrics.

Credit challenges

Muted profitability levels despite improvement – High overheads like outlet rentals and employee costs resulted in muted profitability levels, although the same witnessed steady improvement over the years. Further, the costs remain high in a bid to maintain quality amid perishable inventory, which results in high wastage.

Competition from local manufacturers and established players – Despite having a well-established brand, HPPL is not insulated from competition. The company remains exposed to intense competition from local manufacturers of sweets and *namkeens* and other restaurant operators along with established quick-service restaurant chains like McDonalds, Dominos, KFC and other restaurant chains like Barbeque Nation etc.

Quality risks – Given the company’s operations in the food industry, it remains exposed to risks pertaining to quality and reputation.

Liquidity position

Steady improvement in scale of operations, inherently low working capital intensity of business and absence of external long-term debt liabilities led to adequate liquidity position for the company. It had free cash balances of Rs. 3.1 crore as on March 31, 2018 along with unutilised overdraft limits of Rs. 10.2 crore as on January 31, 2019.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The rating assigned to HPPL factors in the reasonable likelihood of the Group company, Haldiram Snacks Private Limited [HSPL; rated [ICRA]AA (Stable)], extending financial support to it because of close business linkages between the two; ICRA also expects HSPL to be willing to extend financial support to HPPL out of its need to protect its reputation from the consequences of a Group entity's distress
Consolidation / Standalone	Standalone

About the company

HPPL is part of the Haldiram Delhi Group promoted by Mr. Madhusudan 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, HPPL operates 16 outlets in North and Central Delhi along with Haryana.

In FY2018, the company reported a net profit of Rs. 2.0 crore on an OI of Rs. 200.6 crore compared with a net profit of Rs. 1.6 crore on an OI of Rs. 176.9 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	176.9	200.6
PAT (Rs. crore)	1.6	2.0
OPBDIT/OI (%)	6.4%	6.9%
RoCE (%)	12.0%	12.5%
Total Debt/TNW (times)	2.19	1.79
Total Debt/OPBDITA (times)	2.96	2.71
Interest Coverage (times)	4.67	5.37

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

		Current Rating (FY2020)			Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on January 2019 (Rs. crore)	Date & Rating	Date & Rating in FY2018		Date & Rating in FY2017	Date & Rating in FY2016	
					March 2018	April 2017	December 2016	November 2015	
1	Fund based limits	10.0	1.1	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Unallocated limits	6.5	-	[ICRA]A (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: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund based limits	NA	NA	-	10.0	[ICRA]A (Stable)
NA	Unallocated limits	NA	NA	-	6.5	[ICRA]A (Stable)

Source: HPPL

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