

Haldiram Foods International Private Limited

March 23, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based- Working Capital Facilities	20.00	40.00	[ICRA]AA(Stable); reaffirmed
Non-fund based-Working Capital Facilities	3.00	3.00	[ICRA]A1+; reaffirmed
Total	23.00	43.00	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]AA (pronounced ICRA double A) for Rs. 40.0-crore¹ fund-based limits (earlier Rs. 20.0-crore) of Haldiram Foods International Private Limited (HFIL)†. The outlook on the long-term rating is Stable. ICRA has also reaffirmed the short-term rating of [ICRA]A1+ (pronounced ICRA A one plus) for Rs. 3.0-crore non-fund based limits of HFIL.

Rationale

The ratings reaffirmation factors in the steady growth in HFIL's operating income (OI) and consistent improvement in its profitability metrics, which combined with the inherently low working-capital intensity of the business, have led to strong cash flow generation for the company. The ratings also take into consideration the comfortable capital structure of the company as indicated by a gearing of 0.11 times as on March 31, 2017. Further, low debt levels, combined with steady profitability have translated into robust debt-protection metrics (Net Cash Accruals/Total Debt of 270%, interest coverage of 91 times and Debt/OPBDITA of 0.3 times as on March 31, 2017). The ratings also factor in the robust liquidity position of the company on the back of healthy cash balances of Rs. 292 crore as on March 31, 2017 and inherently low working-capital intensity of the business. Moreover, the ratings continue to favourably factor in the extensive experience of HFIL's promoters, its strong market position in the packaged food industry on the back of strong brand equity and recognition of Haldiram's brand, and well-entrenched distribution network across western and southern India.

The ratings, however, are constrained by HFIL's exposure to competition from branded packaged food players (both large multinational and medium-sized domestic players) as well as local sweet/savoury snack manufacturers. The ratings also take into consideration the risks associated with acquisitions/investments and significant financial support extended by HFIL to fund the expansion plans of other Group companies. Moreover, the company has extended sizeable loans and advances to several unrelated entities, which exposes it to counterparty risk in relation to recovery of these advances. Further, as the company is in the food business, it remains exposed to quality-related risk.

¹ 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions, please refer to ICRA's Website, www.icra.in, or any of the ICRA Rating Publications.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that HFIL will continue to report healthy growth in OI, while maintaining robust profitability and a healthy liquidity position. Robust profitability, along with low debt levels, is expected to support strong debt-coverage indicators.

Key rating drivers

Credit strengths

- **Strong brand name** – Haldiram's is an established name in the sweets and savoury snacks business and enjoys a strong brand presence in western and southern India. Its wide product offerings and established name in traditional sweets/savoury snacks give it a competitive advantage in these markets.
- **Extensive experience of promoters in *namkeen/sweets manufacturing business*** – The promoters of the Haldiram Nagpur Group have over four decades of experience in the preparation and sales of traditional Indian sweets and savoury snacks. Starting from Nagpur, the Haldiram Nagpur Group has expanded across southern and western India.
- **Consistent growth in OI and profitability** – HFIL's OI growth has been robust over the years, driven by an increase in distribution sales as well as steady increase in prices. Moreover, the operating margins have consistently improved over the last three years, driven by improving economies of scale and better pricing power because of a strong brand name.
- **Extensive distribution network** – HFIL sells its products through an extensive network of carrying and forwarding agents/stockists spread across western and southern India. The well-entrenched distribution network and brand recognition of the Haldiram's brand makes it relatively easier for the company to introduce new products.
- **Strong capital structure and healthy debt-coverage indicators** – HFIL's capital structure has remained strong, with gearing of 0.11 times as on March 31, 2017. Moreover, low debt levels, coupled with healthy profitability, have led to strong debt-coverage indicators.
- **Robust liquidity profile** – Given the robust growth in HFIL's turnover, healthy profitability levels, low working-capital and capex requirements, and the absence of debt-repayment obligations, the company's liquidity position has remained strong. This is further supported by cash and liquid investments to the tune of Rs. 292 crore as of March 31, 2017.

Credit challenges

- **Likelihood of investment of surplus funds in Group companies and unrelated entities** – By virtue of its strong cash flow position, HFIL has made significant investments towards the expansion plans of its Group companies in the recent past. As on March 31, 2017, the quantum of these investments stood at Rs. 218 crore. Moreover, the company has extended sizeable loans and advances (~Rs. 125 crore as on March 31, 2017) to several unrelated entities. Given the likelihood of strong cash flow generation by HFIL going forward, there remains a possibility of these surplus funds being invested in Group companies and unrelated ventures. There remains an area of uncertainty regarding the quantum and risks of such investments.
- **Competition from local manufacturers and established players** – Despite having a well-established brand, HFIL is not insulated from competition from local manufacturers of sweets and snacks and established participants like Pepsi Co. India, Bikanervala Foods Private Limited, Haldiram Snacks Private Limited, Balaji Wafers Private Limited, Prataap Snacks Private Limited etc.

- **Quality-related risks** – Being in the food industry, risks regarding quality and reputation remain high.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

About the company

HFIL is a part of the Haldiram Nagpur Group of Companies, promoted by Mr. Shiv Kishan Agarwal in 1969. The company manufactures and sells sweets/*namkeens* and extruded snack items under the brand name of Haldiram's. The company has a well-established distribution network across western and southern India. HFIL's manufacturing facilities are located in Nagpur.

For FY2017, HFIL reported profit after tax (PAT) of Rs. 238.4 crore on an OI of Rs. 2,107.6 crore against PAT of Rs. 146.6 crore on an OI of Rs. 1,590.7 crore in FY2016.

Key financial indicators (audited)

	FY2016	FY2017
Operating Income (Rs. crore)	1,590.7	2,107.6
PAT (Rs. crore)	146.6	238.4
OPBDIT/OI (%)	14.6%	15.8%
RoCE (%)	33.2%	38.3%
Total Debt/TNW (times)	0.04	0.11
Total Debt/OPBDIT (times)	0.13	0.31
Interest Coverage (times)	161.62	91.31
NWC/OI (%)	2%	8%

Source: HFIL's annual reports, ICRA research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Instrument		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating March 2018	Date & Rating in FY2017 February 2017	Date & Rating in FY2016 March 2016	Date & Rating in FY2015 February 2015
1	Fund-based limits	Long-term	40.00	-	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA (Stable)	[ICRA]AA- (Stable)
2	Non-Fund based limits	Short-term	3.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

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	-	-	-	40.00	[ICRA]AA(Stable)
NA	Non-fund based limits	-	-	-	3.00	[ICRA]A1+

Source: HFIL

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