May 13, 2021

Haldiram Manufacturing Company Private Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/CC	15.00	15.00	[ICRA]A+ (Stable); reaffirmed
Short Term - Non Fund Based/BG	10.00	10.00	[ICRA]A1+; reaffirmed
Total	**25.00**	**25.00**	

**Instrument details are provided in Annexure-1*

Rationale

The ratings reaffirmation favourably factors in the benefits derived by Haldiram Manufacturing Company Private Limited (HMCPL) as a part of the Haldiram Delhi Group; along with the strong recognition and customer acceptance of the Haldiram's brand in sweets, namkeens and restaurants business in North India. Over the past few years, leveraging on the Haldiram brand, HMCPL has steadily added new Quick Service Restaurants (QSR) outlets, growing to 19 stores in March 2021, from nine stores in March 2018. HMCPL's operating income (OI) increased to Rs. 516.3 crore in FY2020 at a 11.6% CAGR over five years, before contracting by 8% in FY2021(E) on account of disruption in operations due to the Covid-19 pandemic. The rating also considers the inherently low working capital intensity of the B2C business with cash and carry sales and the perishable nature of the inventory. Further, absence of long-term debt obligations has resulted in strong financial risk profile as reflected by interest coverage of 24.3 times and DSCR of 23.1 times in FY2020.

The ratings, however, are constrained by the intense competition in the restaurant business, especially in the QSR segment, that constrains pricing power. While broad trends in demographics, urbanisation and acceptance remain favourable, the pandemic has derailed the restaurant and QSR business temporarily. Although ordering-in has picked up supporting demand, the industry will witness pressure on revenues in the coming quarters. Further, ICRA notes that there has been sizeable cash build-up on HMCPL's books as on March 31, 2020 and given the relatively low funding requirements of business, these surplus funds may be advanced to Group companies, along with the acquisition of other entities for inorganic growth, as witnessed in the past. Nevertheless, these investments remain discretionary in nature. Moreover, quality-related risks remain high in the food industry.

The Stable outlook on the [ICRA]A+ rating reflects ICRA's expectation that HMCPL will continue to benefit from Haldiram's strong brand equity in North India, its strong financial risk profile, characterised by healthy coverage indicators.

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. However, it faces stiff competition from other established brands as well as local players.

Further, HMCPL has been steadily increasing the number of its outlets to expand its market reach. This coupled with healthy same-store sales growth from the existing outlets (11% YoY in FY2020), supported the steady growth in OI till FY2020. However, due to the impact of Covid-19 pandemic on the operations, the company faced headwinds in its business, resulting in lower OI for FY2021. It is expected to open new outlets at a steady pace to further expand its market reach.

Inherently low working capital intensity of operations – The working capital intensity of the business is inherently low. Due to the perishable nature of inventory, the company's inventory is maintained at low levels. This, coupled with the fact that the restaurant sales are made on cash basis, reduces the receivables levels.

Strong financial risk profile – The company's financial risk profile is strong as reflected by interest coverage of 24.3 times and DSCR of 23.1 times in FY2020 on account of absence of long-term debt obligations.

Credit challenges

Competition from local manufacturers and established players – Despite having a well-established brand, HMCPL is not insulated from competition. The company remains exposed to intense competition from local manufacturers of sweets and *namkeens*, other restaurant operators, and other established QSR chains such as McDonalds, Dominos, KFC.

Uncertainty regarding utilisation of surplus funds – There has been sizeable cash build-up on HMCPL's books as on March 31, 2020. Given the relatively limited funding requirements of HMCPL, these surplus funds may be advanced to the Group companies or used for acquisition of other entities for inorganic growth, as witnessed in the past. Nevertheless, these investments remain discretionary in nature. However, the quantum, nature and associated risks with deployment of these surplus funds are not known.

Quality risks – Given the company's operations in the food industry, risks regarding quality and reputation remain high.

Liquidity position: Strong

HMCPL's liquidity profile remains **strong** on account of healthy profitability, inherently low working capital intensity of the business and absence of external long-term debt liabilities. Company had free cash balances to the tune of Rs. 55 crore as on March 31, 2020, providing a healthy cushion to its liquidity position. Moreover, the fund-based limits remain largely unutilised, enhancing the company's liquidity profile. There has been a track record of the company using surplus cash flows for extending advances to Group companies and/or for investments. ICRA, however, notes that such outflows are discretionary in nature and any incremental outflows remain dependent upon the surplus liquidity available with the company.

Rating sensitivities

Positive factors – An upward movement in ratings could happen if the company demonstrates healthy and sustained improvement in scale and operating profitability.

Negative factors – Negative pressure on HMCPL's ratings could arise if there is weakening of linkages with the Haldiram Group or if there is sustained deterioration in its financial metrics including decline in profitability, muted/negative revenue growth and any significant debt-funded capex/investments that impacts its leverage profile and debt coverage metrics.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology
Parent/Group Support	The rating assigned to HMCPL factors in the reasonable likelihood of the Haldiram Delhi group companies extending financial support to it because of close business linkages between the group companies; ICRA also expects the group companies to be willing to extend financial support to HMCPL out of the need to protect the group's reputation from the consequences of a group entity's distress
Consolidation/Standalone	Standalone

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 now include the sale of packaged *namkeens* and sweets throughout northern India. At present, HMCPL operates 17 outlets across Gurgaon, Bhiwadi and Bawal.

Key financial indicators (Audited)

	FY2019	FY2020
Operating Income (Rs. crore)	458.5	516.3
PAT (Rs. crore)	34.6	41.6
OPBDIT/OI (%)	12.5%	11.4%
PAT/OI (%)	7.5%	8.1%
Total Outside Liabilities/Tangible Net Worth (times)	0.1	0.1
Total Debt/OPBDIT (times)	0.2	0.0
Interest Coverage (times)	501.7	24.3

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

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2020	Date & Rating in FY2019	Date & Rating in FY2018
					May 13, 2021	Jan 13, 2020	Nov 21, 2018	Jul 21, 2017
1	Cash Credit	Long Term	15.00	-	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)	[ICRA]A+ (Stable)
2	Bank Guarantee	Short Term	10.00	-	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+	[ICRA]A1+

Complexity level of the rated instrument

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, is available on ICRA's 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	Cash Credit	-	-	-	15.00	[ICRA]A+ (Stable)
NA	Bank Guarantee	-	-	-	10.00	[ICRA]A1+

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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About ICRA Limited:

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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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