

March 26, 2024

## Century LED Limited: Ratings upgraded to [ICRA]BBB(Stable)/[ICRA]A3+

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based- Working Capital Facilities	40.00	40.00	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Long-term – Fund-based – Term Loan	9.13	4.06	[ICRA]BBB (Stable) upgraded from [ICRA]BBB- (Stable)
Short-term – Non-fund-based limits	36.00	36.00	[ICRA]A3+ upgraded from [ICRA]A3
<b>Total</b>	<b>85.13</b>	<b>80.06</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The upward revision in ratings action factors in the expected improvement in financial performance of Century LED Limited (CLL) in the current fiscal as reflected by OPBITDA of ~Rs. 7.4 crore during 9m FY2024 compared to operating losses incurred during FY2021-2023. The revenues are expected to increase by ~25-30% in FY2024 on a YoY basis supported by increase in orders from the B2B business and increasing volumes in the retail business. ICRA notes that the company has a healthy confirmed orderbook from various OEMs/Governments, which are likely to support revenues in FY2025 and FY2026. In addition to the B2B business, the retail business is also expected to improve with deeper distribution network. Along with revenues, the operating profit margins have significantly improved to ~7% in 9m FY2024, owing to various cost reduction measures and the execution of high margin B2B orders. Going forward, such profit margins are likely to sustain, supporting cash accruals. In FY2024 and FY2025, improved cash accruals are likely to result in an improvement in debt coverage indicators as well, nonetheless, they remain moderate at absolute levels. The ratings, also continue to factor in the financial flexibility enjoyed by CLL for being a part of the Century Group, which has a strong market position in the domestic plyboard and cement industries through Century Plyboards (India) Limited (rated at [ICRA]AA(Stable)/ [ICRA]A1+) and Star Cement Limited (rated at [ICRA]AA-(Positive)/[ICRA]A1+), respectively. ICRA takes comfort from the promoters' willingness to provide financial support, if required and the experience of the management in managing companies through the initial growth phase. The ratings also take into consideration the established presence of CLL's Magik brand in the lighting segment, especially in the eastern region, which accounted for over 50% of its total sales in FY2023. Over the years, the company has taken various steps to develop its brand by enhancing its distributors and retail network.

The ratings continue to remain constrained by the modest scale of operations in an intensely competitive domestic lighting industry, which is likely to limit any significant improvement in the operating profitability, going forward. The ratings also consider the moderate financial profile of CLL. The liquidity position remains moderate since the average fund-based limits utilisation also remained high in the last six months with limited headroom. However, expected enhancement of working capital limits is likely to provide some comfort.

The Stable outlook is on account of the expected improvement in CLL's revenues and profitability in the near term resulting in adequate cashflows relative to its debt service obligations.

### Key rating drivers and their description

#### Credit strengths

**Significant improvement in financial performance expected in FY2024, likely to sustain in near term:** In the current year, the revenues are likely to increase by ~25-30% owing to increased execution of B2B orders and increase in volumes from the retail business. The company has a confirmed orderbook position in the B2B segment, which provides revenue visibility for the next 2 years. ICRA notes that these orders carry high margins, thus, providing support to the operating profits, going forward. The

operating margins have also improved significantly to ~7% in 9m FY2024 compared to operating losses in FY2021-2023 owing to cost reduction measures as well as execution of high margin B2B orders. The margins are likely to sustain at the current levels.

**Experienced promoter and management team; Financial flexibility for being a part of Century Group :** CLL, a part of the Century Group of Companies, has an experienced promoter and management team. The operations are overseen by the Bhajanka family, who are the promoters of Century Plyboards Limited (rated at [ICRA]AA(Stable)/ [ICRA]A1+) and Star Cement Limited (rated at [ICRA]AA-(Positive)/[ICRA]A1+). The promoters have demonstrated their support in the past by way of unsecured loans provided to the company. CLL enjoys considerable financial flexibility for being a part of the Century Group.

**Established brand and distribution network in domestic market:** The company markets its products under the Magik brand, which has an established presence, particularly in the eastern region of the country. The eastern region accounted for over 50% of the company's turnover in FY2023. The brand also has reasonable presence in other regions and has a strong distribution network over ~350 distributors catering to over 22,000 retailers. Over the years, the company has taken various steps for developing the brand, like using brand ambassador - Mr. Sourav Ganguly, which is expected to further strengthen its brand position.

### Credit challenges

**Moderate scale of operations and high concentration in an intensely competitive industry:** CLL's scale of operations is relatively modest compared to other larger players in an intensely competitive domestic lighting industry business. The domestic lighting industry is characterised by the presence of several large and diversified players such as Philips, Surya Roshni and Havells as well as single-product/segment companies and unorganised players, besides imports. The competition has particularly intensified in the recent years with the weakening of entry barriers in the form of capital requirements and technological complexity.

**Moderate debt coverage indicators:** The debt coverage indicators remain weak till FY2023 owing to operating losses incurred by the company. With the improvement in profitability in the current year, the debt coverage metrics are expected to improve, it will still remain at moderate levels on an absolute basis. ICRA notes that external debt remains low at present, which along with healthy profits is likely to support the debt metrics, going forward.

**Susceptible to cyclicity inherent in end-user markets and disruptive technological change:** The demand for lighting products, to some extent, is driven by real estate/construction activities, exposing the company's operations to cyclicity inherent in the end-user market. Further, the company's business remains susceptible to the risk of disruptive technological changes because of the growing focus on energy conservation and frequent introduction of more energy-efficient products. However, new products introduced by the company mitigates the risk to an extent.

### Liquidity position: Adequate

CLL's liquidity is adequate, supported by improved cashflow from operations, moderate debt servicing obligations and low capex plans. The term loan outstanding is ~Rs. 4 crore as of Feb-24, which is likely to be repaid during FY2025. Apart from this, there are no debt repayment obligations. The capital expenditure is expected to remain negligible. While the WC utilization remain fully utilized, ICRA notes that the company is planning to enhance its WC limits, which will support liquidity. The internal as well as external sources of funds will be adequate to meet the company's debt servicing obligations. Moreover, the company enjoys considerable financial flexibility as it is a part of the Century Group.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded if there is a significant improvement in revenues and profitability, which result in an improved debt coverage metrics and improvement in liquidity through better working capital management.

**Negative factors** – The ratings may be downgraded if there is a slower-than-expected improvement in the financial performance of the company. Also, any weakening in linkage with the Century Group or a significant deterioration in the credit profile of the Group will be negative triggers.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	CLL enjoys financial flexibility for being a part of the Century Group. The promoters of the Group have a track record of extending financial support through unsecured loans. Given the reputation sensitivity, ICRA expects the promoters to continue to extend financial support as and when required.
Consolidation/Standalone	Standalone

## About the company

Incorporated in 2005, CLL manufactures and trades in LED lamps under the brand, Magik. The company's manufacturing unit is in Howrah, West Bengal with an annual installed capacity of 10 million units per annum. CLL has a pan-India distribution network, besides having an established presence in the institutional segment with corporate and Government organisations as its customers.

### Key financial indicators (audited)

CLL Standalone	FY2022	FY2023	9M FY2024*
Operating income	110.8	117.2	108.1
PAT	-10.5	-9.5	0.2
OPBDIT/OI	-5.1%	-3.7%	6.9%
PAT/OI	-9.5%	-8.1%	0.2%
Total outside liabilities/Tangible net worth (times)	2.6	4.0	
Total debt/OPBDIT (times)	-11.5	-16.7	
Interest coverage (times)	-1.0	-0.7	1.5

Source: Company, ICRA Research; \* Provisional numbers; 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

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as of Jan 31, 2024 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Mar 26, 2024	Mar 13, 2023	Mar 11, 2022	Feb 05, 2021
1	Term loans	4.06	4.06	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Cash Credit	40.00	37.3	[ICRA]BBB (Stable)	[ICRA]BBB- (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
3	Letter of Credit/ Bank Guarantee	36.00	-	[ICRA]A3+	[ICRA]A3	[ICRA]A3	[ICRA]A3

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Long term – Cash credit/Working Capital Demand Loan	Simple
Long term – Term Loan	Simple
Short term – Non fund based	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	<b>Fund-based – Term Loan</b>	FY2021	NA	FY2024	4.06	[ICRA]BBB(Stable)
NA	<b>Fund-based – Working capital facilities</b>	NA	NA	NA	40.00	[ICRA]BBB(Stable)
NA	<b>Non-fund based limits</b>	NA	NA	NA	36.00	[ICRA]A3+

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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## 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](http://www.icra.in)

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