October 12, 2022

# Halonix Technologies Pvt. Ltd.: Ratings upgraded

## Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|---|---|---|---|
| **Fund-based – Cash credit** | 93.00 | 93.00 | [ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Positive) |
| **Fund-based – Term loan** | 10.00 | 5.00 | [ICRA]BBB+ (Stable); upgraded from [ICRA]BBB (Positive) |
| **Non-fund based- Letter of credit** | 35.00 | 43.00 | [ICRA]A2; upgraded from [ICRA]A3+ |
| **Non-fund based- Bank guarantee** | 5.00 | 5.00 | [ICRA]A2; upgraded from [ICRA]A3+ |
| **Non-fund based- Forex derivative** | 7.00 | 2.00 | [ICRA]A2; upgraded from [ICRA]A3+ |
| **Long-term / Short-term unallocated** | - | 2.00 | [ICRA]BBB+ (Stable)/[ICRA]A2; upgraded from [ICRA]BBB (Positive)/[ICRA]A3+ |
| **Total** | **150.00** | **150.00** | |

*Instrument details are provided in Annexure-1

## Rationale

The ratings upgrade factors in the healthy growth in Halonix Technologies Pvt. Ltd.'s (HTPL or the company) scale of operations in FY2022 despite the pandemic-led operational disruptions in the first quarter of the fiscal. The company reported a healthy growth of ~19% in its turnover in FY2022 on the back of sharp recovery in demand in the institutional segment, registering ~30% YoY growth. HTPL's retail segment, which faces stiff competition from larger players in the industry, also reported 13% YoY growth, supported by the company's initiatives towards strengthening brand presence and augmenting product portfolio by regularly launching innovative products. While the company's operating margins were to some extent impacted due to inflationary pressure resulting in increased costs, its financial profile continued to be comfortable, characterised by a conservative capital structure (as reflected in a gearing, viz. Total Debt/ Tangible Net Worth (TD/ TNW) of 0.4 times as on March 31, 2022), adequate liquidity profile and comfortable debt coverage metrics.

Further, notwithstanding the company's moderate scale of operations, it is noted that, barring FY2021, HTPL has grown at a healthy pace in the recent past (corroborated by a 4-year CAGR of ~12% up to FY2022), supported by its established brand, 'Halonix', its widespread distribution network and a professionally qualified management team. The ratings are, however, constrained by the company's volatile profit margins owing to fluctuations in key raw material prices, intense competition in the domestic lighting industry and the need to incur advertisement and promotion expenses to maintain brand visibility. In this context, comfort is drawn from the company's ability to maintain range-bound profit margins in the past two fiscals. ICRA also notes that the expected scaling up of the newly-launched products in the home automation (based on IoT platform), security and surveillance and the fans segments, will provide some diversification benefits, besides supporting growth in the scale of operations and profitability. However, given the presence of several large and established players, the company's ability to garner a meaningful market share remains to be seen. In the meanwhile, the company has a high dependence on the lighting segment (~93% revenue share in FY2022), whose growth remains susceptible to the cyclicality inherent in the end-user market (viz., real estate).

The Stable outlook on the company's long-term rating reflects ICRA's expectation that a healthy increase in demand in the coming months would help HTPL register a sustained growth in volumes. Besides, moderate dependence upon debt, coupled with expected improvement in profitability on account of declining raw material prices, is expected to translate into comfortable debt protection metrics for the company.

## Key rating drivers and their description

### Credit strengths

**Established brand and distribution network in domestic market** – Launched in 2010 (under erstwhile Halonix Limited; later Phoenix Lamps Limited or PLL), HTPL's 'Halonix' brand has gained a good traction in the domestic market over the past decade. Further, the company has been in the domestic lighting industry for more than 25 years now (earlier under PLL) and has established a strong distribution network (comprising ~800 distributors and ~80,000 retailers across the country). This has helped it scale-up volumes in its general lighting operations over the years and successfully launch new products. While the company has a pan-India presence, it enjoys a relatively stronger presence in the northern region, presenting growth opportunities in other markets. Further, over the last decade, HTPL has established a fair presence through the institutional channel (contributing ~27% to HTPL's total revenues in FY2022), as it undertakes contracts for lighting projects from corporate as well as Government clients. In the past, HTPL has undertaken projects for reputed players like JSW Steel Ltd., Reliance Industries Limited and Jubilant FoodWorks Ltd. among others.

**Professionally qualified promoters and management –** HTPL is owned by NewQuest Capital Partners, a Singapore based private equity investor, through its fund, NewQuest Asia Investment II Limited. The investor, with a diversified investment portfolio in India and other emerging economies in the Asia Pacific region, is actively involved in strategic decision making for the company through its two nominee directors on HTPL's board. Further, HTPL's operations are managed by a professional board of directors led by Mr. Rakesh Zutshi (Managing Director), who has an extensive experience in the domestic lighting industry. Mr. Zutshi is also a member (and former President) of Electric Lamp and Component Manufacturers' Association (ELCOMA), which represents the Indian lighting industry.

**Comfortable financial profile characterised by conservative capital structure and adequate debt coverage metrics** – HTPL has maintained a comfortable capital structure as reflected in a gearing (Total Debt/Tangible Net Worth) of 0.4 times as on March 31, 2022, supported by no term borrowing requirements and moderate reliance on working capital borrowings, given a reasonable credit period from its suppliers. Low reliance on debt has also helped the company maintain adequate debt coverage metrics despite some moderation in profitability in FY2022. This was reflected in an interest cover of 3.7 times in FY2022 vis-à-vis 3.4 times in FY2021 and Total Debt/operating profit of 1.8 times in FY2022 (1.6 times in FY2021). The DSCR also stood comfortable at 3.5 times in FY2021 vis-à-vis 3.0 times in FY2021.

### Credit challenges

**Moderate scale of operations and high concentration in an intensely competitive segment –** Despite the healthy double-digit growth in its revenues (4-year CAGR of ~12% up to FY2022), HTPL's scale of operations remains moderate with a low single-digit market share in an intensely competitive industry. The domestic lighting industry is characterised by several large and diversified players such as Philips, Surya Roshni, Bajaj Electricals, Crompton Greaves Consumer Electricals and Havells, imports, as well as single-product/segment companies and unorganised players, given the low entry barriers in the form of capital requirements and technological complexity. ICRA also notes that the company faces stiff competition from several organised and unorganised players in its fans division, limiting pricing flexibility. This also results in moderate profitability for the company. Having said that, the company has been able to withstand competitive pressures, reporting healthy revenue growth in the recent years, particularly in relation to some large industry players, supported by its consistent efforts to launch new and innovative products. Though the company plans to retain its focus on expanding its product portfolio by launching innovative, value-added products, its ability to do so in a sustainable manner, while maintaining growth and reasonable profitability, remains to be seen.

**High working capital intensity -** HTPL's operations are working capital intensive due to elongated receivable turnover period and sizeable inventory holding requirement. The receivables position also remains high due to a sizeable share of business from institutional clients (mainly contractors executing orders for Government organisations and corporate clients), who usually take 90-100 days to clear dues. This is partly supported by a long payable cycle due to letter of credit (usance period of ~90-120 days)-backed imports. Besides, the recently sanctioned channel financing limits are also expected to result in a lower receivables turnover period for the company, going forward. Further, ICRA notes that though surplus cash profits and limited capex requirements help the company maintain a comfortable liquidity profile keeping its reliance on working capital borrowings moderate, it stays exposed to the risk of bad debts or inventory write-offs amid fast-changing trends in the lighting sector.

**Susceptibility to cyclicality inherent in end-user markets, disruptions in supply chain and disruptive technological changes -** The demand for lighting products and fans is, to some extent, driven by real estate/construction activity, exposing the company's operations to the cyclicality inherent in the end-user market. This apart, the company's operations remain vulnerable to any disruptions in the supply chain. HTPL has a significant dependence on China for its raw material supplies. Any disruptions in the supply chain, which impacts its operations considerably will, thus, remain a key rating monitorable. Further, the company's business remains susceptible to the risk of disruptive technological changes, because of growing focus on energy conservation and frequent introduction of more energy-efficient products. This was also evident in the impact of a trend shift from CFL to LED-based lighting products on the company's turnover growth and profitability during FY2016-FY2017. While the company demonstrated its ability to adapt to the technological change and successfully launch new, value-added products in the LED segment, revenue concentration in the lighting segment resulted in a pronounced impact vis-à-vis some of the diversified industry players. Though it has diversified its product profile by launching fans, the revenue concentration on the lighting segment remains high. Nonetheless, healthy growth prospects for the LED lighting market, given the Government initiatives to promote energy-saving products and increased expenditure on advertisements to increase awareness of LED products, are all expected to support the industry and the company's revenue growth.

## Liquidity position: Adequate

HTPL's liquidity position remains adequate, with comfortable cash flows from operations, calibrated capex plans and no fixed repayment obligations in the current fiscal. The company's adequate liquidity position is corroborated by an average cushion of ~Rs. 40 crore in its fund-based working capital limits during the six-month period ended July 2022. Utilisation of its working capital limits has remained comfortable, averaging at ~55% vis-à-vis lower of the sanctioned limits and the available drawing power in the 6-month period ended July 2022.

## Rating sensitivities

**Positive factors –** The ratings could be upgraded, if there is any sustained healthy growth in the company's scale of operations, while managing working capital cycle efficiently, and with improved diversification across product segments, which facilitates an improvement in its return indicators with RoCE of more than 18%, on a sustained basis.

**Negative factors –** The ratings could be downgraded, if there is any sustained pressure on the company's revenues and profitability, which results in a decline in its return indicators. Any stretch in the working capital cycle, which weakens the liquidity profile or any major debt-funded capex impacting the company's capital structure and coverage metrics will also be a negative trigger. A specific credit metric for a downgrade is if interest cover is less than 3.5 times, on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable Rating Methodologies** | Corporate Credit Rating Methodology |
| **Parent/Group Support** | Not Applicable |
| **Consolidation/Standalone** | The rating is based on the standalone financial profile of the company |

## About the company

HTPL, incorporated in 2013, manufactures and trades in general lighting lamps, LED products and fans under the 'Halonix' brand. The company's manufacturing unit is in Haridwar, Uttarakhand. HTPL has been in the domestic lighting industry for more than 25 years (earlier under Phoenix Lamps Limited, or PLL) and has a strong pan-India distribution network, besides an established presence in the institutional segment.

HTPL was incorporated following an agreement to spin off and sell PLL's general lighting division. In August 2013, PLL transferred its general lighting business to its subsidiary, HTPL, and sold it to the Actis Capital affiliates. HTPL's ownership changed again in March 2016, when Actis Capital sold its stake to NewQuest Capital Partners, which now owns more than 99% stake in the company.

### Key financial indicators (audited)

| Standalone | FY2021 | FY2022 |
|---|---|---|
| Operating Income (Rs. crore) | 438 | 521 |
| PAT (Rs. crore) | 12 | 16 |
| OPBDIT/OI (%) | 6.8% | 6.1% |
| PAT/OI (%) | 2.8% | 3.1% |
| Total Outside Liabilities/Tangible Net Worth (times) | 1.7 | 1.7 |
| Total Debt/OPBDIT (times) | 1.6 | 1.8 |
| Interest Coverage (times) | 3.4 | 3.7 |

*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 (FY2023) | | | | Chronology of rating history for the past 3 years | | | |
|---|---|---|---|---|---|---|---|---|---|
| | | Type | Amount rated (Rs. crore) | Amount outstanding (Rs. crore)* | Date & rating in FY2023 | Date & rating in FY2022 | Date & rating in FY2021 | | Date & rating in FY2020 |
| | | | | | Oct 12 ,2022 | Oct 04, 2021 | Jan 22, 2021 | Sep 28, 2020 | Jul 19, 2019 |
| 1 | Cash Credit | Long term | 93.00 | 53.00 | [ICRA]BBB+ (Stable) | [ICRA]BBB (Positive) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB -(Positive) |
| 2 | Term Loan | Long term | 5.00 | 5.00 | [ICRA]BBB+ (Stable) | [ICRA]BBB (Positive) | [ICRA]BBB (Stable) | - | - |
| 3 | Letter of Credit | Short term | 43.00 | 40.5 | [ICRA]A2 | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3 |
| 4 | Bank Guarantee | Short term | 5.00 | 5.2 | [ICRA]A2 | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3 |
| 5 | Forex derivative | short term | 2.00 | - | [ICRA]A2 | [ICRA]A3+ | - | - | - |
| 6 | Unallocated | Long term/ short term | 2.00 | - | [ICRA]BBB+ (Stable)/[ICRA]A2 | - | - | - | - |

**Outstanding as on July 31, 2022*

## Complexity level of the rated instrument

| Instrument | Complexity Indicator |
| --- | --- |
| **Fund Based – Cash Credit** | Simple |
| **Fund Based – Term Loan** | Simple |
| **Non Fund Based- Letter of Credit** | Very Simple |
| **Non Fund Based- Bank Guarantee** | Very Simple |
| **Non Fund Based- Forex derivative** | Very Simple |
| **Long-term / Short-term Unallocated** | Not applicable |

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: www.icra.in

## Annexure-1: Instrument details

| Bank Name | Instrument Name | Date of Issuance / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Rating and Outlook |
|---|---|---|---|---|---|---|
| **NA** | Fund Based – Cash Credit | NA | NA | NA | 93.00 | [ICRA]BBB+ (Stable) |
| **NA** | Fund Based – Term Loan | FY2023 | NA | FY2026 | 5.00 | [ICRA]BBB+ (Stable) |
| **NA** | Non Fund Based- Letter of Credit | NA | NA | NA | 43.00 | [ICRA]A2 |
| **NA** | Non Fund Based- Bank Guarantee | NA | NA | NA | 5.00 | [ICRA]A2 |
| **NA** | Non Fund Based- Forex derivative | NA | NA | NA | 2.00 | [ICRA]A2 |
| **NA** | Long-term / Short-term Unallocated | NA | NA | NA | 2.00 | [ICRA]BBB+ (Stable)/[ICRA]A2 |

*Source: HTPL*

***Please click here to view details of lender-wise facilities rated by ICRA***

### 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.

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For more information, visit www.icra.in

# ICRA Limited

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