August 18, 2023

Halonix Technologies Pvt. Ltd.: Ratings reaffirmed and outlook revised to Positive; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based – Cash Credit	93.00	93.00	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Long-term Fund-based – Term Loan	5.00	5.00	[ICRA]BBB+ (Positive); reaffirmed and outlook revised to Positive from Stable
Short Term Non Fund based	50.00	60.00	[ICRA]A2; reaffirmed/assigned
Long-term / Short-term unallocated	2.00	2.00	[ICRA]BBB+ (Positive)/[ICRA]A2; reaffirmed and outlook revised to Positive from Stable for Long term rating
Total	**150.00**	**160.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in the long-term rating outlook to Positive factors in the steady improvement in the operational and financial risk profiles of Halonix Technologies Pvt. Ltd. (HTPL or the company) in FY2023 and ICRA's expectations of sustained improvement of the same in the near-to-medium term, on the back of healthy turnover growth, sustained profitability and higher backward integration of operations. The company recorded an operating income of Rs. 571 crore in FY2023 against Rs. 521 crore in FY2022 (~10% YoY growth), led by a healthy performance in the institutional segment, registering a ~37% YoY revenue growth. HTPL's retail business, which operates in a highly competitive market, reported a fall in revenues in FY023, amid stiff competition. ICRA expects HTPL's revenues to grow by 10-12% to Rs.630-640 crore in the current fiscal and its institutional channel to continue to see a strong growth on the back of its established association with leading corporates and government clients, enabling it to secure sizeable repeat orders. Besides, the operating margins witnessed a healthy improvement to ~7.4% in FY2023 from ~6.1% in FY2022 on account of softening of prices of key raw materials like metal and plastic components during the year, and from the recent commissioning of backward integrated facilities, resulting in higher in-house manufacturing of components. HTPL's financial risk profile continues to be comfortable, as characterised by a conservative capital structure (as reflected in a gearing, viz. Total Debt/ Tangible Net Worth [TD/ TNW] of 0.3 times as on March 31, 2023), adequate liquidity profile and comfortable debt coverage metrics. The company's financial risk profile is expected to further improve in the upcoming fiscals from healthy net cash accruals and no major capex plans in the upcoming fiscals.

The ratings, however, continue to be constrained by the company's moderate scale of operations, intensely competitive domestic lighting industry, volatile profit margins owing to fluctuations in key raw material prices (resulting in the need to incur advertisement and promotion related expenses to maintain brand visibility) and high working capital intensity. Nonetheless, comfort can be drawn from the company's ability to improve its profit margins in the recent fiscal by backwardly integrating its operations. However, given the presence of several large and established players, the company's ability to garner a meaningful market share remains to be seen. Further, the company has a high dependence on the lighting segment (~93% revenue share in FY2023), growth of which remains susceptible to the cyclicality inherent in the end user market (viz., real estate).

Key rating drivers and their description

Credit strengths

Established brand and distribution network in domestic market – Launched in 2010 (as Pheonix Lamps Limited; later Halonix Limited, and eventually Halonix Technologies Pvt. Ltd., post the dermerger), 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 with more than 1,00,000 retail touch points 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 ~33% to HTPL's total revenues in FY2023), as it undertakes contracts for lighting projects from corporate as well as Government clients. In the past, HTPL has undertaken projects for reputed entities like JSW Steel Ltd., Reliance Industries Limited, Jubilant FoodWorks Ltd., TCS, Telangana state among others.

Professionally qualified promoters and management – HTPL is owned by TPG NewQuest Capital Partners (earlier NewQuest), a leading private equity investor, through its fund, NewQuest Asia Investment II Limited. The investor has a diversified investment portfolio in India and other emerging economies in the Asia Pacific region with a focus on five core sectors which include business services, consumer, financial services, healthcare and TMT. TPG NewQuest 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.

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 0.3 times as on March 31, 2023, supported by modest term borrowing requirements, moderate reliance on working capital borrowings, given a reasonable credit period from its suppliers, and no dividend payouts in the past. Low reliance on debt and healthy improvement in profitability helped the company strengthen its debt coverage metrics in FY2023. This was reflected in an interest cover of 4.7 times in FY2023 vis-à-vis 3.7 times in FY2022 and Total Debt/operating profit of 1.2 times in FY2023 vis-à-vis 1.8 times in FY2022. The DSCR also stood comfortable at 3.8 times in FY2023 vis-à-vis 3.5 times in FY2022.

Credit challenges

Moderate scale of operations and high concentration in an intensely competitive segment – Despite the double-digit growth in its revenues (5-year CAGR of ~11% up to FY2023), HTPL's scale of operations remains moderate with mid-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 pressure, 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), which 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.

Susceptible 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, despite lower imports from China in FY2023 vis-à-vis the previous fiscals, the company's operations remain vulnerable to any disruptions in the supply chain, as it continues to depend on China for imports of key components. Any disruption 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. While the company has demonstrated its ability to adapt to the technological changes and successfully launched 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's initiatives to promote energy-saving products and increased expenditure on advertisements to increase awareness of LED products, are expected to support the industry and the company's revenue increase.

Liquidity position: Adequate

HTPL's liquidity position remains adequate, with comfortable cash flow from operations, no major capex plans and modest repayment obligations of Rs.2.6 crore in the current fiscal. The company's adequate liquidity position is corroborated by an average cushion of ~Rs. 43 crore in its fund-based working capital limits during the six-month period ended in July 2023. Utilisation of its working capital limits has remained comfortable, averaging at ~53% vis-à-vis lower of the sanctioned limits and the available drawing power in the 6-month period ended in July 2023.

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. Besides, improved diversification across product segments, facilitating an improvement in its return indicators with RoCE of more than 18%, on a sustained basis.

Negative factors – Pressure on the ratings could emerge in case of sustained pressure on the company's revenues and profitability, resulting 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.

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

Incorporated in 2013, HTPL manufactures and trades in general lighting lamps, consumer lumes, LED products and fans under the brand, Halonix. The company's manufacturing unit is located in Haridwar, Uttarakhand. HTPL has a strong pan-India distribution network comprising ~800 dealers and distributors and around 1,00,000 direct and indirect retail touch points, besides an established presence in the institutional segment with corporates and government organisations as its customers.

HTPL was incorporated post an agreement to spin off and sell the general lighting division of Phoenix Lamps Limited (PLL; erstwhile Halonix Limited). In August 2013, PLL transferred its general lighting business to its subsidiary, HTPL, and sold it to Actis Capital affiliates. The ownership of HTPL once again changed hands in March 2016, when Actis Capital sold its stake to NewQuest Capital Partners (now TPG NewQuest Capital Partners), which now owns the entire stake in the company. TPG NewQuest Capital Partners is a leading private equity investor having a diversified investment portfolio in India and other emerging economies in the Asia Pacific region with a focus on five core sectors which include business services, consumer, financial services, healthcare and TMT.

The Indian operations of the fund are managed by Mr. Sachin Khandelwal, the Managing Director and Head Portfolio Manager. Mr. Khandelwal has more than 15 years of consulting experience. The investor is actively involved in strategic decision making for the company. HTPL's operations are managed by a professional board of directors – led by Mr. Rakesh Zutshi (Managing Director), who has a significant experience in the domestic lighting industry.

Key financial indicators (audited)

Standalone	FY2022	FY2023
Operating income	521	571
PAT	16	19
OPBDIT/OI	6.1%	7.4%
PAT/OI	3.1%	3.3%
Total outside liabilities/Tangible net worth (times)	1.7	1.2
Total debt/OPBDIT (times)	1.8	1.2
Interest coverage (times)	3.7	4.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years			
		Type	Amount rated (Rs. crore)	Amount outstanding* (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Aug 18, 2023	Oct 12 ,2022	Oct 04, 2021	Jan 22, 2021	Sep 28, 2020
1	Fund-based – Cash Credit	Long term	93.00	46.1	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)
2	Fund-based – Term Loan	Long Term	5.00	3.7	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB (Positive)	[ICRA]BBB (Stable)	
3	Non Fund based	Short Term	60.00	-	[ICRA]A2	[ICRA]A2	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+
7	Unallocated	Long Term/ Short term	2.00	-	[ICRA]BBB+ (Positive) /[ICRA]A2	[ICRA]BBB+ (Stable) /[ICRA]A2			

**outstanding as on March 31, 2023*

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term Fund-based – Cash Credit	Simple
Long-term Fund-based – Term Loan	Simple
Short Term Non-Fund based	Very Simple
Long-term / Short-term unallocated	NA

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	**Long-term Fund-based – Cash Credit**	NA	NA	NA	93.00	[ICRA]BBB+(Positive)
NA	**Long-term Fund-based – Term Loan**	FY2023	NA	FY2025	5.00	[ICRA]BBB+(Positive)
NA	**Short Term Non-Fund based**	NA	NA	NA	60.00	[ICRA]A2
NA	**Long/Short Term Unallocated**	NA	NA	NA	2.00	[ICRA]BBB+(Positive)/[ICRA]A2

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:

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