

Halonix Technologies Pvt. Ltd.

July 11, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund Based/ Cash Credit	0.00	70.00	[ICRA]BBB-(Stable); Assigned
Short Term - Non-Fund Based	0.00	24.00	[ICRA]A3; Assigned
Long Term / Short Term - Unallocated	12.50	0.00	-
Total	12.50	94.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BBB- (pronounced ICRA triple B minus) and a short-term rating of [ICRA]A3 (pronounced ICRA A three) to the 94.00-crore¹ enhanced fund-based and non-fund-based bank facilities (enhanced by Rs. 81.50 crore, from Rs. 12.50 crore earlier) of Halonix Technologies Pvt. Ltd. (HTPL or the company)². The outlook on the long-term rating is Stable.

Rationale

The ratings assigned take into account HTPL's experience, brand presence and a widespread distribution network in the lighting segment, which together with presence of professionally qualified promoters and management team, have helped the company establish its presence in the domestic lighting market. Further, the ratings draw comfort from company's comfortable financial risk profile characterized by a conservative capital structure, satisfactory liquidity profile and adequate debt coverage metrics. The ratings are, however, constrained by the high working capital intensity in company's operations, intensely competitive nature of the domestic lighting industry and company's dependence on one product segment, growth in which remains susceptible to cyclicalities inherent in the end user market (viz. real estate) as well as disruptive technological changes. Besides pressure on realisations and requirement to extend warranties (amid intense competition) constraining the company's profitability, fast changing market preferences in favour of more energy-efficient products have imparted volatility to HTPL's margins in recent years. While the company has been able to gradually strengthen its presence in the institutional sales segment, which has helped it diversify the revenue base, achieve a volumetric growth, and report a recovery in operating profitability during FY2018 (after two years of subdued margins on account of provisions and write-offs amid transition from Compact Fluorescent Lamp (CFL) to Light Emitting Diode (LED) based products), its ability to maintain the margins remains to be seen.

Outlook: Stable

ICRA believes that HTPL's operational strengths together with a more conducive operating environment, supported by favourable demand outlook and limited scope for a further correction in realisations, would help the company report a steady growth in turnover in the near to medium term. Further, a steady product portfolio, benefits of economies of scale and expectations of reduced warranty requirements should help the company achieve a range-bound profitability.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

This together with limited capital expenditure requirements is expected to help the company maintain a steady credit profile. The outlook may be revised to Positive if the company achieves greater diversification and reports a higher-than-anticipated growth in revenues and profitability while streamlining its working capital cycle and maintaining a comfortable capital structure, thus leading to strengthening of its credit profile. The outlook may be revised to Negative if any major capital expenditure, or stretch in the working capital cycle, weakens liquidity and hence the credit profile.

Key rating drivers

Credit strengths

Established brand and distribution network in the domestic market: Launched in 2010 (under the erstwhile Halonix Limited/ Phoenix Lamps Limited), HTPL's 'Halonix' brand has gained good traction in the domestic market over the past eight years. Further, the company has established a strong distribution network comprising 639 distributors and ~40,000 retailers across the country, which has helped it scale up volumes in its general lighting operations over the years. While the company has a pan-India presence, it enjoys a relatively stronger presence in the Northern region, presenting growth opportunities in other markets.

Comfortable financial profile characterised by conservative capital structure, satisfactory liquidity profile and adequate debt coverage metrics: With no major term borrowings and moderate reliance on working capital borrowings given the access to reasonable credit period from suppliers, HTPL has been able to maintain a comfortable capital structure. This is reflected in a gearing (TD/TNW) ratio of 0.57 times as at end of FY2018E. Further, notwithstanding the modest and volatile operating margins over the years, low reliance on debt has helped the company maintain adequate debt coverage metrics. Besides, surplus cash profits and limited capital expenditure undertaken during the past few years have helped the company maintain a comfortable liquidity profile as reflected in average fund-based limit utilisation of ~73% vis-a-vis drawing power available during FY2018.

Professionally qualified promoters and management team: HTPL is wholly owned by NewQuest Capital Partners, a Hong-kong based private equity investor, through its fund - NewQuest Asia Investment II Limited. The investor, with a diversified investment portfolio in India as well as other emerging economies in Asia Pacific region, is actively involved in strategic decision-making for the company. Further, 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. Mr. Zutshi also currently holds the position of President of Electric Lamp and Component Manufacturers' Association (ELCOMA), which represents the Indian lighting industry.

Credit challenges

Moderate scale of operations, in an intensely competitive industry: The domestic lighting industry is intensely competitive with presence of several large and diversified players such as Philips, Surya Roshni and Havells as well as single product/ segment companies, unorganised players and imports. The competition has particularly intensified in recent years with weakening of entry barriers in the form of capital requirements and technological complexity. This created pressures on realisations, constraining HTPL's topline growth, keeping its scale of operations moderate and range-bound in value terms at ~Rs. 300-350 crore. However, ICRA notes that HTPL benefits from its established brand presence and distribution network which has helped the company maintain a comfortable volumetric growth. Further, evolving regulations such as Bureau of Indian Standards' (BIS) safety norms mandated in Sep'17 and Bureau of Energy Efficiency's (BEE) norms set to become effective from July 1, 2018 are expected to benefit the organised segment by strengthening the entry barriers.

Modest and volatile profitability and return metrics amid high warranty claims and intense competitive pressures:

Notwithstanding the improvement reported during FY2018, HTPL's operating profitability has remained volatile over the years amid intense competitive pressures and evolving market preferences. While on the one hand, a transition from CFL to LED based products, resulted in inventory losses during FY2016 and FY2017, on the other hand, product realisations have witnessed a continuing decline amid increasing competition. Besides, the profitability for the lighting sector has also been affected by high warranty claims. With stabilization of LED technology, and changing government norms on quality requirements and reduction in warranty period on LED lamps to one year from two years earlier, ICRA expects profitability pressures to subside going forward. Nevertheless, extent of improvement remains to be seen.

Further, HTPL has a high import dependence, as the company imports ~60% of its raw material requirement. In addition, the company also undertakes import of luminaries and other specific demand products. Although the associated forex risk is partially mitigated by the company's ability to price the products based on trend in exchange rates, as also evident in its demonstrated track record of no major forex losses, its ability to do so continually and in a timely manner amid intense competitive pressures, remains crucial for its profitability.

High working capital intensity: HTPL's operations are working capital intensive characterised by debtor and inventory turnover period of more than six months. This results in a corresponding stretched payable cycle. Although ICRA notes that generation of surplus cash profits and limited capex requirements have helped the company maintain a comfortable liquidity profile, keeping its reliance on working capital borrowings moderate, the company stays exposed to risk of bad debts or inventory write-offs amid fast-changing trends in the lighting sector.

Susceptibility to cyclicalities inherent in end-markets i.e. real-estate as well as disruptive technological changes:

Demand for lighting products is, to some extent, driven by the real-estate/ construction activity, exposing the company's operations to cyclicalities inherent in the end user market. 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 shift in trend from CFLs to LED-based lighting products on company's turnover growth as well as profitability during FY2016 and FY2017. While the company demonstrated its ability to adapt to the technological change, concentration of revenues on the lighting segment resulted in a pronounced impact vis-a-vis some of the diversified players in the industry.

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:

Incorporated in August 2013, HTPL is engaged in the manufacturing and trading of General Lighting Lamps and Consumer Lumes for sale in domestic market under the brand – 'Halonix'. The company has manufacturing units in Haridwar and Dehradun in Uttarakhand. HTPL has a strong retail distribution network comprising 639 distributors and ~40,000 retailers, 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, which now owns entire stake in the company.

In FY2018, on a provisional basis, HTPL reported a net profit of Rs. 8.39 crore on an operating income of Rs. 343.97 crore, as compared to a net loss of Rs. 17.15 crore on an operating income of Rs. 303.79 crore in the previous year.

Key financial indicators

	FY2015 Audited	FY2016 Audited	FY2017 Audited	FY2018 Provisional
Operating Income (OI) (Rs. crore)	314.4	317.3	303.79	343.97
OPBDIT	21.4	15.7	3.49	24.33
PAT (Rs. crore)	1.03	(2.74)	(17.15)	10.84
OPBDIT/OI (%)	6.8%	4.9%	0.9%	7.1%
RoCE (%)	7.9%	3.7%	-6.2%	10.5%
Total Debt/TNW (times)	0.62	0.53	0.65	0.55
Total Debt/OPBDIT (times)	2.78	3.18	18.03	2.05
Interest coverage (times)	2.04	1.64	0.33	3.47

Note: OPBDIT: Operating Profit before Depreciation, Interest and Taxes; PAT: Profit after Tax; ROCE (Return on Capital Employed): Profit before Interest and Tax (PBIT)/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress); TNW: Tangible Net Worth

Source: HTPL's Annual Reports and Provisional Financial Statements, ICRA research

Status of non-cooperation with previous CRA:

In the absence of adequate information from the company, Brickwork Ratings had reviewed the rating for the bank loan facilities of HTPL based on best available information, and revised its rating to Issuer did not Cooperate; BWR BB+(Stable)/A4, due to information availability risk, vide its press release dated 13 June 2018.

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2018	Date & Rating June 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Fund-based – bank facilities	Long Term	70.00	-	[ICRA]BBB - (Stable)	-	-	-
2	Non-fund Based- bank facilities	Short Term	24.00	-	[ICRA]A3	-	-	-
3	Unallocated bank facilities	Long Term/ Short term	0.00	-	-	[ICRA]BBB - (Stable)/ A3	-	-

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	Long Term - Fund Based/ Cash Credit	-	-	-	70.00	[ICRA]BBB- (Stable)
NA	Short Term - Non-Fund Based	-	-	-	24.00	[ICRA]A3

Source: HTPL

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