

September 28, 2020

## Halonix Technologies Pvt. Ltd.: Ratings upgraded; outlook revised to Stable

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Bank Facility (Cash Credit)	70.00	70.00	[ICRA]BBB (Stable); upgraded from [ICRA]BBB- (Positive); Outlook revised to stable from Positive
Short-term Non-fund Based Bank Facility (Letter of Credit)	18.00	18.00	[ICRA]A3+; upgraded from [ICRA]A3
Short-term Non-fund Based Bank Facility (Bank Guarantee)	6.00	6.00	[ICRA]A3+; upgraded from [ICRA]A3
<b>Total</b>	<b>94.00</b>	<b>94.00</b>	

\*Instrument details are provided in Annexure-1

### Rationale

The rating upgrade factors in the sustained growth in Halonix Technologies Pvt. Ltd.'s (HTPL or the company) scale of operations, and the resultant improvement in its return metrics in recent years, supported by its initiatives towards strengthening brand presence and augmenting product portfolio by regularly launching innovative products. Barring the current fiscal, when the Covid-19 pandemic disrupted operations and created demand-side pressures, ICRA expects the company to grow at a reasonable pace supported by regular product launches, and maintain comfortable debt coverage metrics, with moderate reliance on debt. Further, while there have been performance pressures in the initial months of the current fiscal in line with the overall industry trend, the demand is gradually picking up. With expectations of further recovery in sales, supported by pent up demand and upcoming festive season, this is likely to cushion the impact for full year. Also, despite moderation, ICRA expects company's coverage metrics to remain comfortable in the current fiscal. Previously in FY2020, improvement in cash accruals had facilitated an improvement in HTPL's debt protection metrics, as reflected in an interest cover of 3.7 times vis-à-vis 2.7 times in FY2019 and Debt Service Coverage Ratio (DSCR) of 3.1 times in FY2020 vis-à-vis 2.6 times in FY2019. Further, the company continues to have a conservative capital structure, with low dependence on debt and a strong net worth base, as reflected in a gearing (Total Debt/ Tangible Net Worth (TD/ TNW)) of 0.7 time as on March 31, 2020.

The ratings continue to derive strength from HTPL's established brand, Halonix, and its widespread distribution network (of ~800 dealers and distributors, and ~30,000 retailers). Together with a professionally-qualified management team, this has also helped establish HTPL's presence in the domestic lighting market. These strengths are, however, partially offset by high product and segmental concentration in an intensely competitive industry, which necessitates high marketing spends to maintain market presence and growth rates. The ratings also factor in vulnerability of HTPL's operations to cyclicity inherent in end-user markets, disruptive technological changes and disruptions in supply chain, given high dependence on China for raw material procurements. In this context, ICRA has noted the ongoing geopolitical tensions between India and China. Any disruption in the company's supply chain, which impacts its operations materially, will remain a key rating monitorable.

The Stable outlook on the company's long-term rating reflects ICRA's expectation that a recovery in demand in the coming months would help it reduce the impact on full year sales and profitability, despite a challenging H1 FY2021. Coupled with low dependence upon debt, this 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 ~30,000 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.

**Professionally qualified promoters and management** – HTPL is 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 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** – Supported by no term borrowing requirements and moderate reliance on working capital borrowings, given a reasonable credit period from its suppliers, HTPL has maintained a comfortable capital structure as reflected in a gearing (Total Debt/ Tangible Net Worth) of 0.7 time as on March 31, 2020. ICRA expects the company's gearing to remain healthy at less than 0.5 time by the end of FY2021(E). Low reliance on debt has also helped the company maintain adequate debt coverage metrics, which further improved in FY2020 following the improvement in revenues and profitability. This is reflected in an interest cover of 3.7 times in FY2020 vis-à-vis 2.7 times in FY2019 and Total Debt/ operating profit of 2.2 times in FY2020 vis-à-vis 2.7 times in FY2019. The DSCR also stood comfortable at 3.1 times in FY2020.

### Credit challenges

**Moderate scale of operations and high concentration in an intensely competitive segment** – Despite the healthy double-digit growth in its revenues in the last three years (20%, 22% and 11% in FY2018, FY2019 and FY2020, respectively), 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 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. It is also pertinent to note that the company has been able to achieve growth despite not participating in aggressively-priced tender business. Though the company plans to retain its focus on expanding its product portfolio by launching innovative, value-add 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 coming 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. 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 cyclical 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 cyclical inherent in the end-user market. This apart, the company's operations remain vulnerable to any disruptions in the supply chain. In this context, ICRA has noted of the ongoing geopolitical tensions between India and China. HTPL has a significant dependence on China for its raw material supplies. 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. 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-add 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 ongoing transition from traditional lamps and CFL-based products to LED-based products, Government initiatives to promote energy saving products and high expenditures on advertisement to increase awareness of LED products, are all expected to support the industry's and the company's revenue growth.

### Liquidity position: Adequate

HTPL's liquidity position remains **adequate** with comfortable cash flows from operations, no major capex plans in the pipeline and limited repayment obligations in the near term. The company's adequate liquidity position is corroborated by a cushion of more than Rs. 20 crore in its fund-based working capital limits in August 2020. Utilisation of its working capital limits has remained comfortable, averaging at ~84% vis-a-vis the sanctioned limits and ~73% vis-a-vis available drawing power in the 6-month period ended August 2020.

### Rating sensitivities

**Positive triggers** – The ratings could be upgraded if there is a sustained healthy growth in the company's scale of operations, with improved diversification across product segments, which facilitates an improvement in its return indicators and debt-coverage metrics. In addition, efficient working capital management, which strengthens the company's liquidity position, could also be a positive rating trigger. Specific metric to include ROCE of more than 15% on a sustained basis.

**Negative triggers** – The ratings could be downgraded if there is a sustained pressure on the company's revenues and profitability, which results in a decline in its return indicators. Additionally, HTPL's rating would be prone to a downgrade if it experiences a significant stretch in its working capital cycle, which weakens its liquidity profile, taking the utilisation to more than 90% vis-à-vis borrowing capacity on a sustained basis and/or results in an increase in HTPL's leverage. Specific metrics to include TOL/ TNW of more than 1.8 times on a sustained basis.

## Analytical approach

Analytical Approach	Comments
<a href="#">Applicable Rating Methodologies</a>	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Liquidity Analysis of Entities in the Non-Financial Sector</a>
Parent/Group Support	Not applicable
Consolidation/Standalone	The ratings are 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 Halonix brand. The company's manufacturing unit is in Haridwar, Uttarakhand. HTPL has been in the domestic lighting industry for more than 25 years now (earlier under PLL) and has a strong pan India distribution network of ~800 dealers and distributors as well as ~30,000 retailers, besides an established presence in the institutional segment.

HTPL was incorporated following an agreement to spin off and sell Phoenix Lamps Limited's (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 once again changed hands in March 2016, when Actis Capital sold its stake to NewQuest Capital Partners, which now owns almost the entire stake in the company.

In FY2020, on a provisional basis, the company reported a net profit of Rs. 13.3 crore on an operating income of Rs. 448.7 crore, compared to a net profit of Rs. 5.0 crore on an operating income of Rs. 403.7 crore in the previous year.

## Key financial indicators

	FY2018 (Audited)	FY2019 (Audited)	FY2020 (Provisional)
Operating Income (OI) (Rs. crore)	330.8	403.7	448.7
PAT (Rs. crore)	10.8	5.0	13.3
OPBDIT/OI (%)	7.5%	5.0%	7.4%
PAT/OI (%)	3.3%	1.2%	3.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.6	1.7
Total Debt/OPBDIT (times)	2.0	2.7	2.2
Interest Coverage (times)	3.5	2.7	3.7

Source: Company's financials, ICRA research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest and tax

## Status of non-cooperation with previous CRA: Not applicable

## Any other information: None

### Rating history for past three years

	Instrument	Current Rating (FY2021)				Chronology of Rating History for the past 3 years			
		Type*	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018
					28-Sep-2020	19-Jul-2019	11-Jul-2018	21-Jun-2018	-
1	Cash Credit	LT	70.00	NA	[ICRA]BBB (Stable)	[ICRA]BBB- (Positive)	[ICRA] BBB- (Stable)	-	-
2	Letter of Credit	ST	18.00	NA	[ICRA]A3+	[ICRA]A3	[ICRA]A3	-	-
3	Bank Guarantee	ST	6.00	NA	[ICRA]A3+	[ICRA]A3	[ICRA]A3	-	-
4	Unallocated Bank Facilities	LT/ ST	-	-	-	-	-	[ICRA] BBB- (Stable)/ [ICRA]A3	-

Amount in Rs. crore;

\*LT: Long-term; ST: Short-term

### 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](http://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	NA	NA	NA	70.00	[ICRA]BBB (Stable)
NA	Letter of Credit	NA	NA	NA	18.00	[ICRA]A3+
NA	Bank Guarantee	NA	NA	NA	6.00	[ICRA]A3+

Source: Halonix Technologies Pvt. Ltd.

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

## Analyst Contacts

### Jayanta Roy

+91 33 7150 1100  
[jayanta@icraindia.com](mailto:jayanta@icraindia.com)

### Nidhi Marwaha

+91 124 4545 337  
[nidhim@icraindia.com](mailto:nidhim@icraindia.com)

### Pratika Bhandari

+91 124 4545 321  
[pratika.bhandari@icraindia.com](mailto:pratika.bhandari@icraindia.com)

## Relationship Contact

### Jayanta Chatterjee

+91 804332 6401  
[jayantac@icraindia.com](mailto:jayantac@icraindia.com)

## MEDIA AND PUBLIC RELATIONS CONTACT

### Ms. Naznin Prodhani

Tel: +91 124 4545 860  
[communications@icraindia.com](mailto:communications@icraindia.com)

## Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

[info@icraindia.com](mailto:info@icraindia.com)

## 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)

## ICRA Limited

### Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: [info@icraindia.com](mailto:info@icraindia.com)

Website: [www.icra.in](http://www.icra.in)

### Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

### Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

© Copyright, 2020 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website [www.icra.in](http://www.icra.in) or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents