

December 02, 2019

Century LED Limited: Rating assigned for enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. Crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based – Term Loan	10.00	22.00	[ICRA]BBB(Stable); Assigned
Fund Based – Working Capital Facilities	20.00	20.00	[ICRA]BBB(Stable); Outstanding
Non-fund Based Limits	-	26.00	[ICRA] A3; Assigned
Total	30.00	68.00	

*Instrument details are provided in Annexure-1

Rationale

The rating factors in the improvement in CLL's financial performance in FY2019 with the operating income increasing by ~50% to Rs. 125.30 crore and an increase in the operating profitability to 5.91% in FY2019 from 0.34% in FY2018, resulting in the company reporting cash profits, as per provisional results. However, notwithstanding such improvement, the capital structure and debt coverage indicators of the company remained adverse with a gearing of 4.63 times and interest cover of 1.27 times in FY2019, which constrain the rating. The company continued to report losses at the net level in FY2019, though the same reduced significantly on a YoY basis. The rating also considers the financial flexibility enjoyed by Century LED Limited (CLL) for being a part of the Century Group. The Group 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-(Stable)/ [ICRA]A1+), respectively. The rating is however constrained by the relatively small scale of operations in a highly competitive domestic lighting industry, which is likely to limit the extent of further improvement in operating profitability, going forward. The working capital intensity was high in FY2019 as the company is in the ramp-up stage. Besides, the debtor days were elevated due to the execution of a project order towards the end of the last fiscal. The ability of the company to ramp up its scale of operations in a profitable manner while keeping its working capital cycle under control would be the key rating sensitivities. ICRA takes comfort from the willingness of the promoters to provide financial support, if required, the experience of the management in managing companies through the initial growth phase and the potential synergies of the lighting business with the existing businesses of the Group. The Stable outlook underpins the improvement in CLL's profitability and cash flows, which are expected to be adequate relative to its debt service obligations. In addition, the receipt of subsidies in the current year provides comfort.

Key rating drivers and their description

Credit strengths

Experienced promoter and management team – CLL, a part of the Century Group of Companies, has an experienced promoter and management team. The operations are overseen by Mr. Keshav Bhajanka, son of Mr. Sajjan Bhajanka, who is the promoter of Century Plyboards Limited and Star Cement Limited and has been involved in the plywood industry for the past 25 years.

Established brand and distribution network in domestic market – The company markets its products under the Magik brand. Within a short period of ~two years, the Magik brand has established its presence, particularly in the eastern region of the country. The eastern region accounted for over 40% of the company's turnover in FY2019. The brand,

however, also has reasonable presence in other regions of the country. It has a strong distribution network with 315 distributors to cater to over 16,500 retailers.

Financial flexibility for being a part of Century Group – CLL enjoys considerable financial flexibility for being a part of the Century Group. The Group has an established presence 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-(Stable)/ [ICRA]A1+).

Credit challenges

Relatively small scale of operations in an intensely competitive industry – CLL's scale of operations are relatively modest compared to other large players in a highly competitive domestic lighting industry business. While in FY2019 the company reported a 50% growth in operating income at Rs. 125.30 crore (provisional), on an absolute basis, it remained relatively modest. 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. Nonetheless, the company's ability to profitably scale up the operations going forward along with increasing its share of value-added products, thus augmenting margins, would be important determinants of its overall performance.

Subdued profitability, debt protection metrics and aggressive capital structure; expected ramp-up in operations would support the financial profile, going forward – The company commenced operations in FY2017. In the last two years, the company has scaled up its operations and reported an increase in OPBITDA at Rs. 7.40 crore in FY2019 (provisional) against Rs. 0.28 crore in FY2018. Notwithstanding the loss-making operations at present, ICRA notes that the extent of losses has reduced and the company reported a cash profit in FY2019. The debt-funded capex incurred to set up CLL's facility along with the loss-making operations, led to a weak capital structure with a gearing of 4.63 times as of end FY2019. The debt coverage indicators were depressed with a total debt/OPBITDA of 9.75 times and interest cover of 1.27 times in FY2019.

High working capital intensity; some improvement is expected given the increasing scale of operations – CLL's operations are highly working capital intensive given the elevated debtor days and high inventory holding period. ICRA notes that the company has executed an order for an institutional client towards the end of the last fiscal, which led to higher debtor days and inventory holding period. Nonetheless, some headroom in working capital limits, along with the financial flexibility arising out of being a part of the Century Group supports CLL's liquidity position.

Susceptible to cyclical inherent in end-user markets and disruptive technological changes – The demand for lighting products, to some extent, is driven by real estate/construction activity, exposing the company's operations to cyclical 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. Nonetheless, healthy growth prospects for LED lighting market, given the ongoing transition from traditional lamps and CFL-based products to LED-based products, the Government's initiatives to promote energy saving products and high expenditure on advertisement to increase awareness about LED products, are also expected to support the company's revenue growth.

Liquidity position: Adequate

CLL's liquidity is adequate, as reflected by an improvement in working capital utilisation in the recent months and Group support provided by the promoters in the form of unsecured loans in FY2019. Moreover, the company enjoys considerable financial flexibility as it is a part of the Century Group. Given the expected ramp-up in operations, ICRA expects CLL's cash flows to be able to meet its debt service obligations, going forward.

Rating sensitivities

Positive triggers – The rating may be upgraded if there is a significant improvement in profitability and debt coverage indicators on the back of a healthy ramp-up in the scale of operations.

Negative triggers – The rating may be downgraded if there is a slower-than-expected improvement in the financial performance of the company and / or if there is a weakening of the Group’s credit profile.

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

In FY2019, on a provisional basis, the company reported a net loss of Rs. 2.98 crore on an operating income of Rs. 125.30 crore compared to a net loss of Rs. 6.78 crore on an operating income of Rs. 83.71 crore in FY2018. In H1FY20, on a provisional basis, CLL reported an operating income of Rs.67.23 crore.

Key financial indicators (audited)

	FY2018	FY2019*
Operating Income (Rs. crore)	83.71	125.30
PAT (Rs. crore)	-6.78	-2.98
OPBDIT/OI (%)	0.34%	5.91%
RoCE (%)	-6.05%	2.30%
Total Outside Liabilities/Tangible Net Worth (times)	5.90	7.24
Total Debt/OPBDIT (times)	244.83	9.75
Interest Coverage (times)	0.07	1.27
DSCR	0.08	0.64

Source: Company; * Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current Rating (FY2020)				Rating History for the Past 3 Years			
		Amount Rated	Amount Outstanding as on 31-Oct-2019	Rating		FY2019	FY2018	FY2017	
				2-Dec-2019	24-Sep-2019				
1	Term Loan	Long Term	22.0	16.81	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
2	Cash Credit	Long Term	20.0	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-	-
3	Letter of Credit	Short Term	20.0	-	[ICRA] A3	-	-	-	-
4	Bank Guarantee	Short Term	6.0	-	[ICRA] A3	-	-	-	-

Amount in Rs. crore ; Source: Century LED Limited and ICRA Ratings

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 [click here](#)

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	NA	Jun-2024	22.00	[ICRA]BBB (Stable)
NA	Cash Credit	NA	NA	NA	20.00	[ICRA]BBB (Stable)
NA	Letter of Credit	NA	NA	NA	20.00	[ICRA]A3
NA	Bank Guarantee	NA	NA	NA	6.00	[ICRA]A3

Source: Century LED Limited

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