Surya Roshni Limited

October 05, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities (1)	200.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities (2)	917.45 (Reduced from 1,041.64)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Short Term Bank Facilities (3)	1,164.32	CARE A1+ (A One Plus)	Assigned
Long Term / Short Term Bank Facilities (4)	-	-	Withdrawn
Long Term Bank Facilities (5)	-	-	Withdrawn
Total Bank Facilities	**2,281.77 (Rs. Two Thousand Two Hundred Eighty-One Crore and Seventy-Seven Lakhs Only)**		
Commercial Paper (Carved out)*	175.00	CARE A1+ (A One Plus)	Reaffirmed
Commercial Paper (Carved out)*	25.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short Term Instruments	**200.00 (Rs. Two Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

*The commercial paper will continue be carved out of the existing sanctioned CC limits subject to available Drawing Power.

Detailed Rationale & Key Rating Drivers

The revision of the ratings assigned to the bank facilities and debt instruments of Surya Roshni Limited (SRL) factors in the improvement in the operational performance supported by favorable changes in industry and business dynamics in lighting division and higher contribution of value-added products in Steel Pipes and Strips Division, thereby leading to better profitability and accruals and the resultant improvement in debt metrics and liquidity position. The ratings also favorably factor in a consistent reduction in debt levels including prepayments in FY21 (refers to the period April 1 to March 31) and Q1FY22 (refers to the period from April 1 to June 30) culminating in reduced finance cost. Going forward, the company is expected to report further improvement in its operating performance which coupled with reduction in working capital intensity is expected to result in improvement in return ratios. The ratings continue to derive strength from the extensive experience of its promoters and management and the company's long track record of operations in both lighting and steel pipe businesses with a diversified product profile, integrated operations in its lighting division, a significant market presence in both the segments leveraging upon an established brand name and an extensive nation-wide marketing network. The ratings, however, are constrained by SRL's exposure to raw material price volatility in the steel business, competitive pressures in lighting and appliances segment and the working capital-intensive nature of operations.

CARE Ratings has withdrawn the ratings assigned to the Long-term/ Short-term Bank Facilities (4) and Long-term bank facility (5) of Surya Roshni Limited with immediate effect, as the company has repaid the facility in full and there is no amount outstanding under the issues as on date and on account of re-classifcation of facilities, respectively.

<u>Rating Sensitivities</u>

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Sustained growth in the scale of operations beyond Rs.8,000 crore and improvement in return on capital employed (ROCE) above 25%.
- Reduction in the operating cycle below 60 days and strengthening of liquidity position.
- Sustained improvement in overall gearing to below 0.20 times and total debt to PBILDT below unity.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in the total operating income to below Rs.5,000 crore or decline in margins and ROCE below 15%.
- Deterioration in overall gearing more than 0.8 times.
- Elongation in the operating cycle and the resultant weakening of liquidity position.

Detailed description of the key rating drivers
Key Rating Strengths
Improvement in operational performance: Despite the first two quarters being impacted by covid-19, the company managed to report higher operating income in FY21 as compared with FY20. With the SRL's thrust on high-value products galvanized pipes, 3LPE-coated API pipes and exports the company reported an increase in PBILDT/tonne in steel division to Rs.3,525 per MT in FY21, which improved further to 5,033 per MT in Q1FY22 on the back of the increased sale of higher-margin products and ongoing up-cycle in the industry and consequent increase in prices of steel and pipes. The EBITDA margin in the lighting and consumer durable segment also improved from 8% in FY20 to 10% in FY21 aided by the introduction of a new range of value-added products, channel financing to dealers, reduction of replacement cost and EESL sales converted into B2C sales, cost efficiencies, and continuous price hike to counter the increasing raw material cost. Furthermore, the company has an order book of Rs.1,630 crore as on July 31, 2021, which provides adequate revenue visibility in the short to medium term. Moreover, continued lower imports and government initiatives such as Product Linked Incentive (PLI) scheme are expected to support volumes and margins of industry players in lighting segment including SRL.

Strenghening of financial risk profile: With healthier cash accruals backed by higher contribution from value-added products and stronger cash flow from operations due to better working capital management, SRL has been able to reduce its long-term debt from Rs.342 crore as on March 31, 2020 to Rs.124 crore as on June 30, 2021. The same coupled with accretion of profits to net-worth has resulted in improvement in the overall gearing (including acceptances) of the company to 0.73x as on March 31, 2021 (1.03x as on March 31, 2020). The interest coverage ratio of the company also improved to 5.47x during FY21 as compared to 3.13x during FY20 on account of a decrease in the interest cost in line with the reduction in total debt. The total debt to PBILDT ratio of the company improved to 2.63x as on March 31, 2021 (3.58x as on March 31, 2020). Going forward, CARE Ratings expects the company's deleveraging to continue on the back of the generation of healthy free cash flows in the absence of any large debt-funded capex plans.
Established brand name with wide marketing network: SRL has established brand names of Prakash Surya and Surya for its two business segments, viz., steel pipes and strips, and lighting and consumer durables, respectively. The company is one of the leading players in both these segments with around 2,500 dealers/distributors and more than 250,000 retailers spread across the country for the lighting segment and 21,000 dealers and 250 major distributors in the steel pipe segment to augment its market reach. The diversified product portfolio includes electric resistance welded (ERW) steel tube pipes (SRL being the largest exporter from India in this segment), galvanized iron (GI) pipes, hollow section pipes, API coated pipes, and spiral pipes manufactured through strategically located plants at Malanpur (Madhya Pradesh), Hindupur (Andhra Pradesh), Bahadurgarh (Haryana) and Anjar (Gujarat) to cater to supplies to different parts of the country. The company also exports its lighting products and API-certified pipes to more than 50 countries around the world. Exports contributed to 13% of gross sales in FY21 (PY: 17%).

Integrated lighting operations: The company has an integrated manufacturing facility for the entire range of lighting products (LED and conventional lighting) which find application in domestic, industrial and commercial segments. SRL has an in-house capability to manufacture lighting products from scratch including glass, printed circuit boards (PCBs), ballasts, filaments and caps. The company also has in-house research & development (R&D) laboratory in Noida (Uttar Pradesh), accredited by the Department of Scientific and Industrial Research (DSIR), which is involved in the design and development of new products in the lighting segment. This high level of integration helps the company to achieve better control over the entire value chain and thus results in better competitive strengths and profitability margins. The growing demand for LEDs supported by smart cities development and reduced dependence on China for the components is expected to boost the operations of larger domestic players including SRL.

Experienced promoters and long track record of the company: The company has been in the steel business since 1973 and diversified into the lighting business in 1985. The promoter and Executive Chairman of the company, Mr J P Agarwal, has a rich experience of over four decades in the industry and has been conferred Padma Shri for his services in the field of trade and industry by the Government of India. Further, SRL has designated the charge of management of both divisions separately to Mr. Tarun Baldua (ED & CFO, Steel operations) and Mr. Nirupam Sahay (ED & CFO, Lighting) who are supported by a management team consisting of experienced professionals in the business of steel, lighting, and finance domains.

Key Rating Weaknesses

Working capital intensive nature of business operations: The company's business is working capital intensive owing to large inventory that the company has to maintain for raw material and finished goods being an integrated player. Furthermore, the company purchases most of its raw material on cash/LC basis in line with industry practice, while it provides a credit of upto 60 days to its customers. With better working capital management, the company's operating cycle reduced to 86 days as on March 31, 2021 (PY: 95 days), mainly on account of a reduction in collection days from 51 days in FY20 to 47 days in FY21. Going forward, the company is expected to further rationalize its working capital cycle and shall be a key monitorable.

Exposure to raw material price volatility risk in steel pipes segment: The company is engaged in the manufacturing of steel pipes which is an inherently limited value addition business however the proportion of value-added products has been increasing on a y-o-y basis. The main raw material for the steel segment of SRL is HR coils, the prices of which are volatile. Although the company, being a converter of RM to finished good, is able to pass on the fluctuation in raw material prices in the final product, with a time lag, due to the nature of business, SRL is partially exposed to price volatility risk on its inventory which may adversely impact the margins. However, a part of its steel pipe business is backed by confirmed orders which mitigate the inventory price fluctuation risk to some extent. Furthermore, the healthy product diversification due to GI pipes, presence in exports and the lighting segment lend stability to the revenue streams and overall profitability of the company.

Liquidity: Adequate: SRL has an adequate liquidity position supported by reducing debt levels and healthy cash accruals. The company has projected gross cash accruals of Rs.332.00 crore during FY22 against which it has scheduled repayment obligation of Rs.51.31 crore only. Besides this, the company has projected to incur a capex of about Rs.71.00 crore which is for the expansion, maintenance and sustenance of plants which will be funded through internal accruals of the company. The company witnessed a greater reduction in limit utilization in the last 12 months despite Covid-19-related disruption in supply chains. As on March 31, 2021, cushion in the company's fund-based working capital facilities stood at Rs.529 crore (factoring in inter-changeability allowed from non-fund-based facilities to fund-based facilities).

Analytical approach: Standalone

Applicable Criteria

CARE's criteria on assigning outlook and credit watch
CARE's policy on default recognition
Liquidity Analysis of Non-Financial Sector
CARE's methodology for manufacturing companies
CARE's criteria for short term instruments
CARE's criteria for rating Credit Enhanced Debt
CARE's rating methodology on financial ratios – Non-financial sector

About the Company

Surya Roshni Ltd (SRL) was incorporated in 1973 for manufacturing of ERW pipes, sold under the brand name of Prakash-Surya. In 1985, SRL diversified into lighting products with the manufacturing of general lighting systems (GLS) and fluorescent tube lamps (FTL) sold under brand name Surya and started the production of compact fluorescent lamps (CFLs) in 2007. Mr J.P. Agarwal, Chairman, and Mr Raju Bista, Managing Director, manage the day-to-day affairs of the company. SRL presently operates in two operational business divisions – Steel Pipes and Strips division and Lighting and consumer durables division. The Lighting division mainly manufactures GLSs and entered into manufacturing CFLs in FY07 post which the company entered into LED lighting. Apart from this, the Lighting division also has a luminaries segment which consists of lights for industrial and commercial applications like high mast, induction lamps, etc. The company has an installed capacity of 115.2 million LED lamps, 40 million FTLs and 192 million GLS lamps as on June 30, 2021. The Steel division mainly manufactures ERW steel pipes (both American Petroleum Institute (API) and non-API standard) and cold rolled (CR) strips. In the steel division, SRL has an installed capacity of 835,000 MT as on June 30, 2021, for varied sizes of ERW pipes, 200,000 MT (online- 60,000 MT and offline- 140,000 MT) for spiral pipes and 115,000 MT for CR strips and sheets.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)
Total operating income	5,472.11	5,558.42
PBILDT	356.80	381.46
PAT	102.21	156.50
Overall gearing (times)	1.03	0.73
Interest coverage (times)	3.13	5.47

A: Audited

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating History for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	April, 2030	117.45	CARE AA-; Stable
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	800.00	CARE AA-; Stable
Non-fund-based-LT/ST		-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Stand by Line of Credit		-	-	-	0.00	Withdrawn
Non-fund-based-Long Term		-	-	-	200.00	CARE AA-; Stable
Non-fund-based-Short Term		-	-	-	850.00	CARE A1+
Fund-based - ST-Standby Line of Credit		-	-	-	142.00	CARE A1+
Non-fund-based - ST-Stand by Line of Credit		-	-	-	135.00	CARE A1+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	37.32	CARE A1+
Commercial Paper-Commercial Paper (Carved out)		-	-	7 to 364 days	175.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)		-	-	7 to 364 days	25.00	CARE A1+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Term Loan	LT	117.45	CARE AA-; Stable	-	1)CARE A+; Stable (10-Feb-21)2)CARE A+; Stable (07-Oct-20)	1)CARE A+; Stable (17-Oct-19)2)CARE A+; Stable (30-Sep-19)	1)CARE A+; Stable (04-Oct-18)2)CARE A+; Stable (26-Apr-18)
2	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE A+; Stable (10-Feb-21)2)CARE A+; Stable (07-Oct-20)	1)CARE A+; Stable (17-Oct-19)2)CARE A+; Stable (30-Sep-19)	1)CARE A+; Stable (04-Oct-18)2)CARE A+; Stable (26-Apr-18)
3	Fund-based - LT-Cash Credit	LT	800.00	CARE AA-; Stable	-	1)CARE A+; Stable (10-Feb-21)2)CARE A+; Stable (07-Oct-20)	1)CARE A+; Stable (17-Oct-19)2)CARE A+; Stable (30-Sep-19)	1)CARE A+; Stable (04-Oct-18)2)CARE A+; Stable (26-Apr-18)
4	Non-fund-based-LT/ST	LT/ST*	-	-	-	1)CARE A+; Stable / CARE A1+ (10-Feb-21)2)CARE A+; Stable / CARE A1 (07-Oct-20)	1)CARE A+; Stable / CARE A1 (17-Oct-19)2)CARE A+; Stable / CARE A1 (30-Sep-19)	1)CARE A+; Stable / CARE A1 (04-Oct-18)2)CARE A+; Stable / CARE A1 (26-Apr-18)
5	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST*	-	-	-	1)CARE A+; Stable / CARE A1+ (10-Feb-21)2)CARE A+; Stable / CARE A1 (07-Oct-20)	1)CARE A+; Stable / CARE A1 (17-Oct-19)2)CARE A+; Stable / CARE A1 (30-Sep-19)	1)CARE A+; Stable / CARE A1 (04-Oct-18)2)CARE A+; Stable / CARE A1 (26-Apr-18)
6	Commercial Paper-Commercial Paper (Carved out)	ST	175.00	CARE A1+	-	1)CARE A1+ (10-Feb-21)2)CARE A1+ (CE) (07-Oct-20)	1)CARE A1+ (CE) (19-Nov-19)2)CARE A1+ (CE) (08-Nov-19)3)CARE A1+ (CE) (30-Sep-19)4)CARE A1+ (CE) (07-Aug-19)5)CARE A1+ (SO) (04-Apr-19)	1)CARE A1+ (SO) (04-Oct-18)2)CARE A1+ (SO) (07-Aug-18)3)CARE A1+ (SO) (13-Jul-18)4)CARE A1+ (SO) (10-May-18)
7	Commercial Paper	ST	-	-	-	-	1)Withdrawn (30-Sep-19)2)Provisional CARE A1+ (CE) (07-Aug-	1)CARE A1+ (SO) (04-Oct-18)2)CARE A1+ (SO) (07-Aug-18)3)Provisional

							19)3)Provisional CARE A1+ (SO) (04-Apr-19)	CARE A1+ (SO) (13-Jul-18)4)Provisional CARE A1 (SO) (10-May-18)
8	Commercial Paper	ST	-	-	-	-	1)Withdrawn (30-Sep-19)2)Provisional CARE A1+ (CE) (07-Aug-19)3)CARE A1+ (SO) (04-Apr-19)	1)CARE A1+ (SO) (04-Oct-18)2)CARE A1+ (SO) (07-Aug-18)3)CARE A1+ (SO) (13-Jul-18)4)CARE A1+ (SO) (CWD) (10-May-18)
9	Commercial Paper-Commercial Paper (Carved out)	ST	25.00	CARE A1+	-	1)CARE A1+ (10-Feb-21)2)CARE A1+ (CE) (07-Oct-20)	1)CARE A1+ (CE) (19-Nov-19)2)Provisional CARE A1+ (CE) (08-Nov-19)	-
10	Non-fund-based-Long Term	LT	200.00	CARE AA-; Stable				
11	Non-fund-based-Short Term	ST	850.00	CARE A1+				
12	Fund-based - ST-Standby Line of Credit	ST	142.00	CARE A1+				
13	Non-fund-based - ST-Stand by Line of Credit	ST	135.00	CARE A1+				
14	Non-fund-based - ST-Credit Exposure Limit	ST	37.32	CARE A1+				

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: NA

*Long Term / Short Term

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Fund-based - LT-Term Loan	Simple
4	Fund-based - LT/ ST-Stand by Line of Credit	Simple
5	Non-fund-based-Long Term	Simple
6	Non-fund-based-LT/ST	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender-wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: *CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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