Surya Roshni Limited

February 10, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	1,057.01	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	1,113.32	CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable/ A One Plus)	Revised from CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable / A One)
Total Bank Facilities	**2,170.33 (Rs. Two Thousand One Hundred Seventy Crore and Thirty-Three Lakhs Only)**		
Commercial Paper (Carved out)*	175.00	CARE A1+ (A One Plus)	Revised from CARE A1+ (CE) [A One Plus (Credit Enhancement)]
Commercial Paper (Carved out)*	25.00	CARE A1+ (A One Plus)	Revised from CARE A1+ (CE) [A One Plus (Credit Enhancement)]
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 in the short-term ratings assigned to the bank facilities and debt instruments of Surya Roshni Limited (SRL) factors in improvement in operational performance during 9MFY21 (refers to the period from April 1 to December 31) supported by favourable changes in 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 resultant improvement in debt metrics and liquidity position. The ratings also favourably factor in consistent reduction in debt levels including prepayments in the current year culminating into reduced finance cost. The ratings also take note of benefits of imposition of custom duty on finished lighting products which augurs well for domestic lighting companies. They are also underpinned by the company's deeper market penetration in rural and semi-urban markets in steel pipes and strips segment. The ratings continue to derive strength from the extensive experience of the promoters of the Surya Group 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, also consider SRL's modest operating margins and return indicators, exposure to raw material price volatility in the steel business, high working capital intensity and stiff competition in the lighting business.

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

- Sustained trend of growth and improvement in ROCE above 14%.
- Reduction in operating cycle below 80 days and strengthening of liquidity position.
- Improvement in overall gearing to below 0.70 times on a sustained basis.

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

- Decline in total operating income to below Rs.5,000 crore or decline in margins and ROCE below 10%.
- Deterioration in overall gearing to beyond 1.25 times
- Elongation in operating cycle and resultant weakening of liquidity position.

Key Rating Strengths

Improved operational performance: During 9MFY21, SRL adopted various strategies which includes commissioning and ramping up of new plant at Hindupur, Andhra Pradesh, which brought about savings in logistics costs, replacement of EESL sale with direct sales, increased focus on higher margin products, economies of scale and reduced dependence on relatively less profitable Bahadurgarh plant, higher capacity utilization and increased contribution from high profit yielding segment – 3- layer polyethylene coating (3LPE) coating and thrust on Galvanized Iron (GI), American Petroleum Institute (API) pipes, exports and other value added pipes. As a result, during Q3FY21, the company reported 15% q-o-q improvement in operating income by registering an income of Rs. 1,577.32 crore during the quarter and 85% y-o-y improvement in profits by reporting a profit of Rs. 55.33 crore in Q3FY21 (PY: Rs. 29.94 cr). Further, despite the impact of Covid-19, the company registered 13% y-o-y growth in operating income during Q3FY21 as compared to Q3FY20. The company was able to recover the sales post Covid-19 induced lockdown due to its significant dominance in rural and semi-urban markets and shift in demand towards the larger players from smaller players/importers. Notably, there has been increase in customs duties on imports of finished products w.e.f. February 1, 2020 which is expected to keep benefiting large players like SRL on a sustained basis. The operating margin in steel pipe division improved from Rs.3,010 per tonne in FY19 (refers to the period from April 1 to March 31) to Rs.3,256 per tonne in FY20 and further improved to Rs. 3,433 per tonne in Q3FY21 on the back of higher contribution from GI pipes and exports, which have relatively higher yield in comparison to other products, besides better realizations vis a vis cost of raw materials. Further, the company has an order book of Rs. 1,652 crore as on December 30, 2020 which provides adequate revenue visibility in short to medium term.

Improving financial risk profile: The overall gearing (including acceptances) of the company improved to 1.02x as on March 31, 2020 (1.24x as on March 31, 2019) which further improved to 0.83x as on December 31, 2020 owing to continuous debt reduction and accretion of profits to net worth. The long-term debt equity ratio improved to 0.22x as on March 31, 2020, as compared with 0.34x as on March 31, 2019 which further improved to 0.21x as on December 31, 2020. Over the past few years, there has been consistent reduction in debt and resultant improvement in gearing level on account of scheduled repayments, prepayments and accretion of profit to net worth. The improvement has also been supported by healthy gross cash accruals (excluding working capital changes) to the tune of Rs. 173.85 during 9MFY21 as compared with Rs. 158.20 crore during 9MFY20. The PBILDT interest coverage ratio of the company improved to 4.8x during 9MFY21 as compared to 2.99x during 9MFY20 on account of lower interest cost due to decrease in total debt of the company and lower interest rates. During 9MFY21, the total debt to GCA and total debt to PBILDT ratio of the company stood at 4.78x and 3.19x respectively on an annualized basis.

Experienced promoters and long track record of the company: The company has been in 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. He is supported by a management team consisting of experienced professionals in the business of steel, lighting and finance domains.

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 the one of the leading players in both these segments with a widespread marketing network having a pan-India presence with 2,500 dealers/distributors and more than 2,50,000 retailers to augment its market reach. The diversified product portfolio of the company 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 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. SRL has also commissioned and operationalized a new 3LPE coating plant in Anjar, Gujarat in November, 2018.

Integrated lighting operations: The company has an integrated manufacturing facility to manufacture the various components and the entire range of lighting products (LED and conventional lighting) which finds 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 design and development of new products in the lighting segment. This high level of integration helps the company to achieve better control on the entire value chain and thus results in better competitive strengths and profitability margins. Some of the key projects in lighting and consumer durables segment include monumental lighting in Leh Fort and illuminating the Kumbh Mela in 2019. 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.

Key Rating Weaknesses

Modest return ratios amid working capital intensive nature of business operations: SRL has modest ROCE which reduced to 10.78% during FY20 (PY: 12.23%) on account of lower earnings in FY20 and elevated level of capital employed amid delays in collections in March 2020 due to lockdown. 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 the line with the industry practice, while it provides a credit of 45-60 days to its customer thereby leading to high operating cycle of 95 days during FY20 (PY: 80 days). However, the company has reported improvement in collections during current financial year on the back stronger demand scenario for larger players in post-Covid period and resultantly operating cycle is likely to improve during FY21 which shall remain a key monitorable.

Exposure to raw material price volatility risk in steel pipes segment: The company is engaged in manufacturing of steel pipes which is inherently limited value addition business however the proportion of value-added products has been increasing on y-o-y basis. The main raw material for the steel segment of SRL is HR coils, CR coils and strips the prices of which are volatile. Although the company is able to pass on the fluctuation in raw material prices in the final product, with a time lag, due to nature of the 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 lends stability to the revenue streams and profitability of the company.

Liquidity: Adequate: SRL has adequate liquidity position supported by reducing debt levels and healthy cash accruals. The company has projected gross cash accruals of Rs. 249.00 crore during FY21 against which it has scheduled repayment obligation of Rs.84.98 crore only. Besides this, the company has projected to incur capex of about Rs. 86.19 crore which is for the expansion of 3LPE coating facilities at Anjar, large-dia section pipe mill (DFT), setting up of 3rd GI pipe plant at Hindupur and remaining pertains to unplanned/uncommitted capex for which it has sufficient headroom in the internal accruals. The company has comfortable current ratio of 1.38x as on March 31, 2020. The company witnessed greater reduction in in limit utilization witnessed in recent months despite of Covid-19. The average fund-based working capital utilization has improved to 73% of the drawing power during the trailing 12 months ended December, 2020. The company did not avail any moratorium from banks, in fact, it has prepaid term loans to the extent of Rs.42.36 crore during April – Dec 2020 thereby reflecting its adequate liquidity position.

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 division. The Lighting division mainly manufactures GLSs and LED lamps and entered in manufacturing CFLs in FY07. 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 2 million CFLs per annum, 115.2 million LED lamps, 40 million FTLs and 192 million GLS lamps as on March 31, 2020. 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 8,35,000 MT as on March 31, 2020 for varied sizes of pipes and 1,15,000 MT for CR strips and sheets.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	5980.77	5472.37
PBILDT	376.00	356.95
PAT	120.88	102.21
Overall gearing (times)	1.24	1.02
Interest coverage (times)	3.27	3.13

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	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	October 2026	241.64	CARE A+; Stable
Fund-based - LT-Term Loan	-	-	October 2026	15.37	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	800.00	CARE A+; Stable
Non-fund-based-LT/ST	-	-	-	812.32	CARE A+; Stable / CARE A1+
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	301.00	CARE A+; Stable / 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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Term Loan	LT	241.64	CARE A+; Stable	1)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)	1)CARE A+; Stable (09-Oct-17)
2.	Fund-based - LT-Term Loan	LT	15.37	CARE A+; Stable	1)CARE A+; Stable	1)CARE A+; Stable (17-Oct-19)	1)CARE A+; Stable (04-Oct-18)	1)CARE A+; Stable

					(07-Oct-20)	2)CARE A+; Stable (30-Sep-19)	2)CARE A+; Stable (26-Apr-18)	(09-Oct-17)
3.	Fund-based - LT-Cash Credit	LT	800.00	CARE A+; Stable	1)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)	1)CARE A+; Stable (09-Oct-17)
4.	Non-fund-based-LT/ST	LT/ST	812.32	CARE A+; Stable / CARE A1+	1)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)	1)CARE A+; Stable / CARE A1 (09-Oct-17)
5.	Fund-based - LT/ ST-Stand by Line of Credit	LT/ST	301.00	CARE A+; Stable / CARE A1+	1)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)	1)CARE A+; Stable / CARE A1 (09-Oct-17)
6.	Commercial Paper-Commercial Paper (Carved out)	ST	175.00	CARE A1+	1)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)	1)CARE A1+ (SO) (08-Mar-18) 2)CARE A1+ (SO) (16-Oct-17)
7.	Commercial Paper	ST	-	-	-	1)Withdrawn (30-Sep-19) 2)Provisional CARE A1+ (CE) (07-Aug-19) 3)Provisional CARE A1+ (SO) (04-Apr-19)	1)CARE A1+ (SO) (04-Oct-18) 2)CARE A1+ (SO) (07-Aug-18) 3)Provisional CARE A1+ (SO) (13-Jul-18) 4)Provisional CARE A1 (SO) (10-May-18)	1)CARE A1 (SO) (16-Oct-17)

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)	1)CARE A1+ (SO) (CWD) (08-Mar-18)
9.	Commercial Paper-Commercial Paper (Carved out)	ST	25.00	CARE A1+	1)CARE A1+ (CE) (07-Oct-20)	1)CARE A1+ (CE) (19-Nov-19) 2)Provisional CARE A1+ (CE) (08-Nov-19)	-	-

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

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

Sr. No.	**Name of the 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-LT/ST	Simple

Note on complexity levels of the rated instrument: *CARE 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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