

Surya Roshni Limited

July 17, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	800 (reduced from 1,000)	CARE AA-; Stable	Reaffirmed
Short-term bank facilities	600 (Reduced from 737.32)	CARE A1+	Reaffirmed
Short-term bank facilities	-	-	Withdrawn
Commercial paper (Carved out)	-	-	Withdrawn
Commercial paper (Carved out)	-	-	Withdrawn

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Surya Roshni Limited (SRL) continue to factor in the company's long track record of operations in both steel pipes and lighting businesses with a diversified product profile, integrated operations in its lighting division and significant market presence in both the segments leveraging upon its established brand name and an extensive nation-wide marketing network. The ratings also consider sustained growth in the company's total operating income (TOI) and cash accruals over the last few years, on the back of buoyancy in the steel pipe industry and its resilient performance in lighting business thereby resulting in an improvement in the return ratios.

The ratings also favourably factor in SRL's continued focus on reduction in its debt including prepayments thereby making it a term debt-free company during FY23 (refers to the period April 1 to March 31) along with reducing trend in working capital borrowings despite increase in the sales. Going forward, CARE Ratings Limited (CARE Ratings) believes that SRL shall sustain a moderate growth in volumes in both the verticals, though lower input prices may result in moderation in its TOI. Leverage profile is also expected to sustain the improving trend in the absence of any large debt-funded capex plans in the medium term. The ratings continue to remain 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CARE Ratings has withdrawn the ratings assigned to the short-term bank facilities of SRL with immediate effect as the company has surrendered the above-mentioned facilities and there is no outstanding against the same. Furthermore, the rating assigned to the commercial paper (CP) issue of SRL has been withdrawn with immediate effect at the request of the company and as there is no outstanding under the said issue as on date.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in the scale of operations beyond ₹8,000 crore and improvement in ROCE above 25%.
- Reduction in the operating cycle below 60 days and strengthening of liquidity position.
- Sustained improvement in the overall gearing to below 0.20x and total debt to PBILDT below unity.

Negative factors

- Decline in the TOI to below ₹5,000 crore or decline in ROCE below 12% on a sustained basis.
- Deterioration in overall gearing more than 0.8x.
- Elongation in the operating cycle and the resultant weakening of liquidity position.

Analytical approach: Standalone

Outlook: Stable

The Stable outlook reflects that SRL is likely to maintain its significant market position in the steel pipes segment and gradually improve its presence in other segments which shall enable it to maintain its healthy business risk profile over the medium term. Furthermore, the financial risk profile is expected to remain strong amidst healthy cash flow generation from operations, relatively low debt levels and absence of any debt-laden expansion plans.

Detailed description of the key rating drivers:

Key strengths

Established brand with diversified product portfolio and 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 around 250 major

¹Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

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), galvanised iron (GI) pipes, hollow section pipes, API coated pipes, and spiral pipes manufactured through strategically located plants at Gwalior (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 around 16% of gross sales in FY23 (PY: around 19%).

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 at 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 development of smart cities and reduced dependence on China for the components is expected to boost the operations of larger domestic players including SRL.

Sustained improvement in operational performance: The company reported healthy operational performance with 3.4% y-o-y increase in TOI from ₹7,730 crore in FY22 to ₹7,996 crore in FY23. It reported an increase in PBILDT/tonne in steel division to ₹6,496 in FY23 (PY: ₹4,648) backed by increasing thrust on high-value products like galvanised pipes, 3LPE-coated API pipes and higher exports apart from the benefit of lower input prices. The PBILDT margin in the lighting and consumer durable segment remained at around 8% in FY23, due to increase in the raw material prices which got mitigated by the increase in revenue along with multiple revision in the prices of the final product. Overall, the company achieved PBILDT margin of 7.69% in FY23 as compared with 5.78% in FY22.

The company has an order book of ₹1,643 crore as on May 26, 2023, which provides 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 over the medium term.

Healthy 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 to nil in FY23. The same coupled with accretion of profits to net worth has resulted in improvement in the overall gearing (including acceptances) of the company to 0.31x as on March 31, 2023 (0.59x as on March 31, 2022). The interest coverage ratio of the company also improved to 13.71x during FY23 as compared to 7.02x during FY22 on account of decrease in the interest cost in line with the reduction in total debt, and healthy operating profit. The total debt/PBILDT ratio of the company improved to 0.93x as on March 31, 2023 (2.05x as on March 31, 2022). 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 major large debt-funded capex plans in the medium term.

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, 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. Furthermore, SRL has two managing directors, viz., Raju Bista and Vinay Surya, overseeing management teams controlled by separate heads of respective businesses being steel pipes and lighting & consumer durables who are supported by teams consisting of experienced professionals.

Stable industry prospects: The major growth drivers for the steel pipes industry include demand emanating from domestic water infrastructure, oil exploration and transportation, construction, irrigation, infrastructure, and expansion of gas pipelines such as national gas grid and city gas distribution. The industry has witnessed consolidation with increasing dominance of larger players especially in ERW segment which has been the most fragmented segment historically. CARE Ratings notes that the demand prospects remain stable in the lighting segment as well.

Liquidity: Strong

SRL's liquidity position is strong marked by healthy generation of cash accruals and no term debt repayment obligations. It has healthy cushion available in terms of un-utilised working capital limits to meet any uncertain events in terms of increase in the input cost or delayed receivable from its clientele or any immediate requirement of capex to meet the industry demand scenario. The average utilisation of fund-based limits over the past 12 months ended April 2023 stood at about 53%. The

company's capex requirement of nearly ₹150 crore for FY24 is expected to be met through internal accruals, which remains healthy with no term debt obligations in the near term.

Key weaknesses

Working capital intensive nature of business operations: SRL has a working capital-intensive nature of business operations owing to the large inventory that the company has to maintain for raw material and finished goods. Furthermore, the company purchases most of its raw material on a cash/LC basis, while it provides a credit of 45-60 days to its customers. The company's operating cycle marginally increased to 68 days in FY23 (PY: 61 days), mainly on account of increase in the inventory days from 49 days in FY22 to 56 days in FY23. Better working capital management reduces the reliance on bank finance to meet the working capital requirement, which is also reflected in lower average utilisation levels of around 53% over the last 12-month period ended April 2023.

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, although the proportion of value-added products has been increasing on a y-o-y basis. The main raw material for the steel pipe segment of SRL is HR coils, the prices of which are volatile. Although the company, being a converter of raw material to finished goods, is able to pass on the fluctuation in the raw material prices in the final product, with a time lag. Due to the nature of business, SRL is partially exposed to the 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 stream and overall profitability of the company.

Environment, social, and governance (ESG) risks

The manufacturing processes of SRL have an impact on the environment through its waste generation, power consumption and raw material sourcing. The company has taken various initiatives to address environmental issues. In lighting manufacturing processes, high energy consumption equipments have been replaced with cost-effective energy-efficient equipment. Furthermore, it aims to reduce CO2 emissions, in sync with its approach towards building a sustainable ecosystem through efficient energy consumption and optimum utilisation of natural resources such as solar and renewable energy. In FY22, the company spent ₹3.53 crore in FY22 on its CSR activities. Around 50% of its board members are independent directors.

Applicable criteria

[Policy on default recognition](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Manufacturing Companies](#)

[Policy on Withdrawal of Ratings](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Capital Goods	Industrial Products	Iron & Steel Products

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. SRL presently operates in two operational business divisions – Steel Pipes & Strips division and Lighting & 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 March 31, 2023.

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 961,000 MT of ERW pipes and 2 lakh MT of spiral

pipes as on March 31, 2023, for varied sizes and 115,000 MT for CR strips and sheets. The capacity of ERW pipes/tubes was enhanced by 36,000 MT from mid of April 2022.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	7,730.07	7,995.95
PBILDT	446.42	614.65
PAT	204.57	335.28
Overall gearing (times)	0.59	0.31
Interest coverage (times)	7.02	13.71

A: Audited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	600.00	CARE AA-; Stable
Fund-based - ST- Standby Line of Credit		-	-	-	0.00	Withdrawn
Commercial Paper- Commercial Paper (Carved out)*	-	-	-	7-364 days	0.00	Withdrawn
Commercial Paper- Commercial Paper (Carved out)*	-	-	-	7-364 days	0.00	Withdrawn
Non-fund-based - ST- Credit Exposure Limit		-	-	-	35.00	CARE A1+
Non-fund-based - ST- Standby Line of Credit		-	-	-	0.00	Withdrawn
Non-fund-based-Long Term		-	-	-	200.00	CARE AA-; Stable
Non-fund-based-Short Term		-	-	-	565.00	CARE A1+

*there are no CPs outstanding

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-	LT	-	-	-	1)Withdrawn	1)CARE AA-;	1)CARE A+;

	Term Loan					(30-Sep-22)	Stable (05-Oct-21)	Stable (10-Feb-21) 2)CARE A+; Stable (07-Oct-20)
2	Fund-based - LT- Term Loan	LT	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A+; Stable (10-Feb-21) 2)CARE A+; Stable (07-Oct-20)
3	Fund-based - LT- Cash Credit	LT	600.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Stable (05-Oct-21)	1)CARE A+; Stable (10-Feb-21) 2)CARE A+; Stable (07-Oct-20)
4	Non-fund-based- LT/ST	LT/ST*	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A+; Stable / CARE A1+ (10-Feb-21) 2)CARE A+; Stable / CARE A1 (07-Oct-20)
5	Fund-based - LT/ ST-Standby Line of Credit	LT/ST*	-	-	-	-	1)Withdrawn (05-Oct-21)	1)CARE A+; Stable / CARE A1+ (10-Feb-21) 2)CARE A+; Stable / CARE A1 (07-Oct-20)
6	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (10-Feb-21) 2)CARE A1+ (CE) (07-Oct-20)
7	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)	1)CARE A1+ (10-Feb-21) 2)CARE A1+ (CE) (07-Oct-20)
8	Non-fund-based- Long Term	LT	200.00	CARE AA-; Stable	-	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Stable (05-Oct-21)	-
9	Non-fund-based- Short Term	ST	565.00	CARE A1+	-	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)	-
10	Fund-based - ST- Standby Line of Credit	ST	-	-	-	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)	-
11	Non-fund-based - ST-Standby Line of	ST	-	-	-	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)	-

	Credit							
12	Non-fund-based - ST-Credit Exposure Limit	ST	35.00	CARE A1+	-	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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 - ST-Standby Line of Credit	Simple
4	Non-fund-based - ST-Credit Exposure Limit	Simple
5	Non-fund-based - ST-Standby Line of Credit	Simple
6	Non-fund-based-Long Term	Simple
7	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the complexity levels of the rated instruments: 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@careedge.in for any clarifications.

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