Surya Roshni Limited

September 30, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	426.00 (Reduced from 800.00)	CARE AA-; Positive	Reaffirmed; Outlook revised from Stable
Short Term Bank Facilities	695.50 (Enhanced from 600.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation of the rating assigned to the bank facilities of Surya Roshni Limited (SRL), derive strength from the continuous improvement in the financial risk profile of the company, marked by healthy capital structure on account of significant debt repayment and strong liquidity position, emanating from the operating cash flows of the company. The rating continues to factor the extensive experience of its promoters and management in the steel pipes and lighting businesses, company's long track-record of operations and being one of the dominant players in the domestic Electric Resistance Welding (ERW) pipes manufacturing. The rating further draws strength from the established market position of SRL, with an extensive nation-wide presence and strong brand recall, for both of its businesses (steel pipes and lighting businesses).

Total operating income (TOI) of SRL has increased at a Compounded Annual Growth Rate (CAGR) of around 9.5%, during FY20 to FY24 period (FY refers to the period from April 01 to March 31), while profitability (Profit After Tax (PAT) has grown at a CAGR of around 34% during the same period. Sustained growth in the company's TOI and cash accruals is largely 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.

CARE Ratings Limited (CARE Ratings) also favourably considers the management's focus towards debt reduction and its philosophy going ahead towards minimal reliance on outside liability.

Going forward as well, CARE Ratings believes SRL shall sustain a moderate growth in volumes in both the verticals, which should lead to the improvement in TOI. Leverage and coverage profile is also expected to sustain in the absence of any large debt-funded capex plans in the medium term. According to the management, any further capex plans, are likely to be entirely funded through internal accruals only.

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 working capital-intensive nature of operations.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growth in the scale of operations beyond Rs.8,000 crore and improvement in return on capital employed (ROCE) above 20%
- Reduction in the operating cycle below 60 days and strengthening of liquidity position.
- Maintaining overall gearing to below 0.20 times and total debt to PBILDT below unity.

Negative factors

- Decline in the total operating income to below Rs.5,000 crore or decline in ROCE below 15% on sustained basis.
- Deterioration in overall gearing more than 0.50 times.
- Elongation in the operating cycle and the resultant weakening of liquidity position

Analytical approach: Standalone

Outlook: Positive

The revision in the outlook to 'Positive' from 'Stable' reflects CARE's expectation that the company will continue to grow its business operations as envisaged, while maintaining its profitability levels, Furthermore, the positive outlook also factors in the maintenance of lower debt levels and absence of any debt-laden expansion plans. The financial risk profile of the company is expected to remain strong amidst healthy cash flow generation from operating activity. The outlook may be revised to 'Stable' if the company is unable to achieve the envisaged revenue and profits and if the debt protection metrics and capital structure weakens from the current levels.

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

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 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 15% of gross sales in FY24 (PY: around 16%).

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 inhouse 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:

Total operating income (TOI) of SRL has increased at a Compounded Annual Growth Rate (CAGR) of around 9.5%, during FY20 to FY24 period (FY refers to the period from April 01 to March 31), while profitability (Profit After Tax (PAT) has grown at a CAGR of around 34% during the same period. The company reported healthy operational performance with marginal decline in TOI from ₹7,996 crore in FY23 to ₹7,809 crore in FY24 mainly due to lower revenue from steel segment on account of lower realisations. Accordingly, PBILDT/tonne in steel division declined in FY24 to ₹5,401 (PY: ₹6,496). The PBILDT margin in the lighting and consumer durable segment improved to 9.15% in FY24 (PY:7.91%), due to better product mix. Overall, the company achieved PBILDT margin of 7.37% in FY24 as compared with 7.69% in FY23. The company has a order book of ~₹1,400 crore as on June 01, 2024, 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. In Q1FY25, Company TOI remains largely stable as compared to Q1FY24. PBILDT margins of the company improved to 8.34% in Q1FY25 as compared to 6.19% in Q1FY24.

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 significantly reduce its debt to Rs. 80 crore in FY24 from ~Rs. 1000 crore in FY21. The same coupled with accretion of profits to net worth has resulted in improvement in the overall gearing (including acceptances) of the company to 0.04x as on March 31, 2024 (0.31x as on March 31, 2023). The interest coverage ratio of the company also improved to 23.92x during FY24 as compared to 13.71x during FY23 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 0.14x as on March 31, 2024 (0.93x as on March 31, 2023). Going forward, CARE Ratings expects the company's reliance on debt will continue to remain low 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 Aug 2024 stood at about 16%. The company plans to incur capex to the tune of around Rs. 500 crores over the next 2-3 years, which is expected to be met through internal accruals only.

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 73 days in FY24 (PY: 68 days), mainly on account of increase in the inventory days from 56 days in FY23 to 59 days in FY24 and reduction in creditor days to 19 days (PY: 24 days) due to higher cash purchases. 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 16% over the last 12-month period ended May 2024. The management has been able to significantly reduce its reliance on outside liability towards funding its working capital requirements.

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 CO_2 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 FY24, the company spent ₹6.36 crore on its CSR activities. The company is managed by professional board of directors who have extensive experience in industry. The Board comprises of 10 Directors including 2 women directors. The independent Directors are more than 50% of the total number of Directors.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector
Withdrawal Policy
Short Term Instruments

About the company and industry

Industry classification

Macroeconomic 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, 2024.

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, 2024, 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)	FY23 (A)	FY24 (A)	Q1FY25 (UA)
Total operating income	7,995.95	7,808.52	1,893.08
PBILDT	614.65	575.31	158.47
PAT	335.28	328.86	92.41
Overall gearing (times)	0.31	0.04	NA
Interest coverage (times)	13.71	23.92	32.41

A: Audited UA: Unaudited NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	206.00	CARE AA-; Positive
Non-fund-based - ST-Credit Exposure Limit		-	-	-	31.00	CARE A1+
Non-fund-based-Long Term		-	-	-	220.00	CARE AA-; Positive
Non-fund-based-Short Term		-	-	-	664.50	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (30-Sep-22)	1)CARE AA-; Stable (05-Oct-21)
2	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (05-Oct-21)
3	Fund-based - LT-Cash Credit	LT	206.00	CARE AA-; Positive	-	1)CARE AA-; Stable (17-Jul-23)	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Stable (05-Oct-21)
4	Non-fund-based-LT/ST	LT/ST	-	-	-	-	-	1)Withdrawn (05-Oct-21)
5	Fund-based - LT/ ST-Standby Line of Credit	LT/ST	-	-	-	-	-	1)Withdrawn (05-Oct-21)
6	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (17-Jul-23)	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)
7	Commercial Paper-Commercial Paper (Carved out)	ST	-	-	-	1)Withdrawn (17-Jul-23)	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)
8	Non-fund-based-Long Term	LT	220.00	CARE AA-; Positive	-	1)CARE AA-; Stable (17-Jul-23)	1)CARE AA-; Stable (30-Sep-22)	1)CARE AA-; Stable (05-Oct-21)
9	Non-fund-based-Short Term	ST	664.50	CARE A1+	-	1)CARE A1+ (17-Jul-23)	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)
10	Fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (17-Jul-23)	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)
11	Non-fund-based - ST-Standby Line of Credit	ST	-	-	-	1)Withdrawn (17-Jul-23)	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)
12	Non-fund-based - ST-Credit Exposure Limit	ST	31.00	CARE A1+	-	1)CARE A1+ (17-Jul-23)	1)CARE A1+ (30-Sep-22)	1)CARE A1+ (05-Oct-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Credit Exposure Limit	Simple
3	Non-fund-based-Long Term	Simple
4	Non-fund-based-Short Term	Simple

Annexure-5: Lender details

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

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

Contact us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Saikat Roy Senior Director **CARE Ratings Limited** Phone: 912267543404 E-mail: saikat.roy@careedge.in	Ranjan Sharma Senior Director **CARE Ratings Limited** Phone: +91-22- 6754 3453 E-mail: ranjan.sharma@careedge.in Pulkit Agarwal Director **CARE Ratings Limited** Phone: 912267543505 E-mail: pulkit.agarwal@careedge.in Hitesh Avachat Associate Director **CARE Ratings Limited** Phone: 912267543510 E-mail: hitesh.avachat@careedge.in

About us:

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