

Surya Roshni Limited

September 30, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	1,000.00	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	1,014.32 (Reduced from 1,164.32)	CARE A1+ (A One Plus)	Reaffirmed
Long-term bank facilities	-	-	Withdrawn
Total bank facilities	2,014.32 (₹ Two thousand fourteen crore and Thirty-two Lakh 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 (₹ Two hundred crore only)		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities and debt instruments of Surya Roshni Limited (SRL) continue to factor in the company's long track record of operations in both steel pipe 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 couple of years notwithstanding the adverse impact of waves of COVID-19 pandemic, on the back of buoyancy in the steel pipe industry and its resilient performance in lighting business thereby resulting in an improvement in return ratios. The ratings also favourably factor in SRL's continued focus on reduction in the term debt including prepayments thereby making it a term debt-free company during the current fiscal while working capital borrowings also remained lower than envisaged despite higher inputs costs. Going forward, CARE Ratings Limited (CARE Ratings) believes that SRL shall sustain a moderate growth in volumes in both the verticals while lower input prices is expected to result in moderation in its TOI, however, the company is expected to maintain its ROCE in mid teen over the medium term. Leverage profile is expected sustain the improving trend in the absence of any large debt-funded capex plans in the medium term.

The ratings continue to be 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.

Furthermore, the ratings assigned to the long-term bank facility of SRL has been withdrawn with immediate effect, as the company has fully repaid the facility (term loan) and there is no amount outstanding under the same as on date.

Rating sensitivities

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

- Sustained growth in the scale of operations beyond ₹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 the overall gearing to below 0.20 times and total debt to PBILDT below unity.

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

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

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

Detailed description of the key rating drivers

Key rating strengths

Established brand name 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 19% of gross sales in FY22 (refers to the period April 1 to March 31) (PY: around 13%).

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 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: Despite the partial impact of COVID-19 in FY22, the company reported healthy operational performance with 39% y-o-y increase in TOI from ₹5,554 crore in FY21 to ₹7,730 crore in FY22. It reported an increase in PBILDT/tonne in steel division to ₹4,646 per MT in FY22 (PY: ₹3,525) backed by increasing thrust on high-value products galvanized pipes, 3LPE coated API pipes, higher exports and inventory gains. However, the same witnessed moderation in Q1FY23 to ₹3,103 per MT due to continued increase in steel prices and inventory losses due to dip in prices towards the end of the quarter. The PBILDT margin in the lighting and consumer durable segment remained in the range of 8-10%. It declined in FY22 to around 8% from 10% in FY21 due to increase in the raw material prices which further got moderated to around 7% in Q1FY23 despite multiple revision in the prices of the final product taken up by the management to mitigate the increased input cost. Furthermore, the company has an order book of ₹1,742 crore as on August 31, 2022, 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 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 from ₹223 crore as on March 31, 2021 to ₹61 crore as on March 31, 2022 which has been reduced to nil in the current year. The same coupled with accretion of profits to net-worth has resulted in improvement in the overall gearing (including acceptances) of the company to 0.59x as on March 31, 2022 (0.73x as on March 31, 2021). The interest coverage ratio of the company also improved to 7.02x during FY22 as compared to 5.41x during FY21 on account of a decrease in the interest cost in line with the reduction in total debt, and healthy operating profit. The total debt to PBILDT ratio of the company improved to 2.05x as on March 31, 2022 (2.66x as on March 31, 2021). 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. The finances and corporate affairs are looked after by CFO and company secretary of the company.

Liquidity: Strong

SRL's liquidity position is strong marked by complete repayment of term debt along with 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 July 2022 stood at 62%. The company's annual capex requirement of nearly ₹80 crore is expected to be met through internal accruals.

Key rating 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 customer. With better working capital management, the company's operating cycle reduced to 61 days as on March 31, 2022 (PY: 86 days) mainly on account of faster liquidation of inventory and a reduction in collection days from 47 days to 38 days. 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 62% over the last 12-month period ending July 2022.

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 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.

Industry prospects: The global steel pipes industry is expected to grow at nearly 4% in the next three years till FY25 and the contribution of the domestic pipes industry in the global industry will continue to remain at 9-10%. The domestic iron and steel pipe industry is one of the key sectors in the infrastructure development of the country. From the extension of pipelines for river interlinking to providing drinking water to every household, the industry plays a critical role in the development of the nation. The overall industry size is currently estimated to be around ₹60,000 crore. The major growth drivers for the 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. While the COVID-19 pandemic had caused certain disruptions, the industry witnessed a V-shape recovery post the removal of restrictions and has surpassed pre-covid levels. The industry has witnessed consolidation with increasing dominance of larger players especially in Electric Welded Resistance (ERW) segment which has been the most fragmented segment historically.

Analytical approach: Standalone**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

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. J.P. Agarwal, Chairman, and Raju Bista and Vinay Surya, Managing Directors, 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. The company has reduced its focus of CFL lights. The production of CFL lights stood nil in FY22. 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, 2022. 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 871,000 MT as on June 30, 2022, for varied sizes of ERW pipes, 200,000 MT (online 60,000MT and offline 140,000MT) for spiral pipes and 115,000 MT for CR strips and sheets.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)
Total operating income	5,554	7,730	1839
PBILDT	377	446	70
PAT	156	205	22
Overall gearing (times)	0.73	0.59	0.46
Interest coverage (times)	5.41	7.02	5.56

A: Audited; UA: Unaudited

Financials have been classified as per CARE Ratings standards

Status of non-cooperation with previous CRA: NA

Any other information: NA

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	800.00	CARE AA-; Stable
Non-fund-based-Long Term		-	-	-	200.00	CARE AA-; Stable
Non-fund-based-Short Term		-	-	-	700.00	CARE A1+
Fund-based - ST-Standby Line of Credit		-	-	-	142.00	CARE A1+
Non-fund-based - ST-Standby Line of Credit		-	-	-	135.00	CARE A1+
Non-fund-based - ST-Credit Exposure Limit		-	-	-	37.32	CARE A1+
Commercial Paper-Commercial Paper (Carved out)*	-	-	-	7-364 days	175.00	CARE A1+
Commercial Paper-Commercial Paper (Carved out)*	-	-	-	7-364 days	25.00	CARE A1+

*there are no CPs outstanding as on date

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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	-	-	-	1)CARE AA-; Stable (05-Oct-21)	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)
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)	1)CARE A+; Stable (17-Oct-19) 2)CARE A+; Stable (30-Sep-19)
3	Fund-based - LT-Cash Credit	LT	800.00	CARE AA-; Stable	-	1)CARE AA-; Stable (05-Oct-21)	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)
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)	1)CARE A+; Stable / CARE A1 (17-Oct-19) 2)CARE A+; Stable / CARE A1 (30-Sep-19)
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)	1)CARE A+; Stable / CARE A1 (17-Oct-19) 2)CARE A+; Stable / CARE A1 (30-Sep-19)
6	Commercial Paper-Commercial Paper (Carved out)	ST	175.00	CARE A1+	-	1)CARE A1+ (05-Oct-21)	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)
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)
8	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (30-Sep-19) 2)Provisional CARE A1+ (CE) (07-Aug-19) 3)CARE A1+ (SO) (04-Apr-19)
9	Commercial Paper-Commercial Paper (Carved out)	ST	25.00	CARE A1+	-	1)CARE A1+ (05-Oct-21)	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	-	1)CARE AA-; Stable (05-Oct-21)	-	-
11	Non-fund-based-Short Term	ST	700.00	CARE A1+	-	1)CARE A1+ (05-Oct-21)	-	-
12	Fund-based - ST-Standby Line of Credit	ST	142.00	CARE A1+	-	1)CARE A1+ (05-Oct-21)	-	-
13	Non-fund-based - ST-Standby Line of Credit	ST	135.00	CARE A1+	-	1)CARE A1+ (05-Oct-21)	-	-
14	Non-fund-based - ST-Credit Exposure Limit	ST	37.32	CARE A1+	-	1)CARE A1+ (05-Oct-21)	-	-

*Long term/Short term.

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

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	Non-fund-based-Long Term	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 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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About us:

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