

## Surya Roshni Limited

September 30, 2019

### Ratings

Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	1,428.36 (enhanced from 1,242.54)	CARE A+; Stable [Single A Plus; Outlook: Stable ]	Reaffirmed
Long/Short term Bank Facilities – NFB	1,290.32 (enhanced from 1103.32)	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable/ A One)	Reaffirmed
<b>Total</b>	<b>2,718.68</b> <b>(Rupees thousand seven hundred and eighteen crore and sixty eight lakh only)</b>		
(i) Commercial Paper	100.00 (reduced from 250)	CARE A1+ (CE) <sup>^</sup> [A One Plus (Credit Enhancement)]	Reaffirmed
(ii) Commercial Paper	-	-	Withdrawn
(iii) Commercial Paper	-	-	Withdrawn

*Details of instruments/facilities in Annexure-1*

<sup>^</sup> Commercial Paper is backed by credit enhancement (CE) in the form of unconditional and irrevocable Stand by Letter of Credit (SBLC Letter) from State Bank of India (SBI, rated CARE AAA; (stable)/ CARE A1+ and HDFC Bank Ltd (HDFC, rated CARE AAA; (stable)/ CARE A1+). The said CPs are carved out of the fund based working capital limits of the company.

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Surya Roshni Ltd (SRL) continues to derive strength from the experienced promoters of Surya Group, SRL's diversified product profile and consistent track record of profitable operations. The ratings also continue to factor in the company's integrated operations in the lighting division, established brand name with an extensive nation-wide marketing network and healthy growth in scale of operations. The ratings also take cognizance of the commencement of production of 3LPE coating plant at Anjar, Gujarat. These rating strengths are, however, partially off-set by' SRL's working capital-intensive nature of business operations, moderately leveraged capital structure and exposure to raw material price volatility in the steel business.

Going forward, the ability of the company to achieve the envisaged revenue and profitability, improve its capital structure and reduce its reliance on working capital borrowings shall be key rating sensitivities. Further, any higher than envisaged debt funded capital expenditure resulting in increased leverage shall also be a rating sensitivity.

The reaffirmation of the rating of Commercial Paper continues to take into account the credit enhancement in the form of unconditional and irrevocable Stand by Letter of Credit (SBLC) letters issued by State Bank of India and HDFC Bank and a payment mechanism designed as per which the Issuing and Paying Agency (IPA) would ensure payment of the CPs on due date as per the terms of the transaction.

The commercial paper at serial number (ii) and (iii) have been withdrawn based on the request of the client as there are no outstanding against the aforesaid CP.

### Detailed description of the key rating drivers

#### Key Rating Strengths

**Experienced promoters and consistent track record of the company:** The promoter of the company, Mr. J P Agarwal has rich experience of over four decades in the industry and is supported by a management team consisting of experienced professionals in the business of steel and lighting. The company has shown consistent growth in income and profitability over the years and has been paying dividend regularly since 2001.

<sup>1</sup>Complete definitions of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and in other CARE publications.

**Established brand name with wide marketing network:** SRL has an established brand name of “Surya” for its lighting products and ‘Prakash-Surya’ for Electric Resistance Welded (ERW) for its pipe segment. The company has a strong marketing network of around 2,500 dealers/distributors and more than 2,50,000 retailers spread across the country. SRL is one of the leading players in ERW pipes segment in India.

**Integrated operations in lighting segment:** The company has an integrated manufacturing facility to manufacture the various components and the entire range of lighting products (GLS, FTL, CFL, LED) which finds application in domestic, industrial and commercial segments. SRL has in-house capability to manufacture lighting products including glass, Printed Circuit Boards (PCBs), ballasts, filaments, 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.

#### **Moderately leveraged capital structure**

The overall gearing of the company though improved yet remained moderate at 1.24x as on March 31, 2019 (1.38x as on March 31, 2018) owing to scheduled repayments, prepayments and accretion of profit to net worth. The total debt to gross cash accruals ratio of the company of the company, although high, improved to 6.86x as on March 31, 2019 (7.06x as on March 31, 2018) owing to better cash accruals during FY19. The PBILDT interest coverage ratio of the company moderated slightly to 3.27x during FY19 as against 3.31 during FY18 on account of higher interest cost during FY19 which was due to increase in total debt of the company. The total debt increased owing to higher working capital requirements during the year which was in line with the increase in scale of operations. For the period Q1FY20 (refers to the period from April 1 to June 30), the company reported PAT of Rs.19.39 crore on an operating income of Rs.1,413.24 crore as compared with a PAT of Rs.20.52 crore on an operating income of Rs.1,271.41 crore for the period Q1FY19.

#### **Credit enhancement in the form of SBLC letters issued by various banks for Commercial Paper issue**

The rating of CPs aggregating Rs.100 crore is based on the credit enhancement in the form of unconditional and irrevocable SBLC letters issued by State Bank of India and HDFC Bank. The said CPs are carved out of the fund based working capital limits of the company. The rating also factors in the payment mechanism as detailed below:

T-1 Day	The issuer shall deposit requisite funds in designated account on T-1 day ('T' being the CP payment due date).  OR Alternatively issuer to provide letter from 'SBLC issuing bank' on T-1 day stating that on T date in morning session (before 12 PM) 'SBLC issuing bank' shall remit the funds in the designated account with IPA.
T-1 Day	At the end of T-1 day if the issuer fails to deposit funds or letter for remitting requisite funds, on T date, The IPA/ Investor would invoke the guarantee immediately and upon such invocation, the payment would be made by the SBLC issuing bank on 'T' date.

#### **Key Rating Weaknesses**

##### **Working capital intensive nature of business operations**

SRL has working capital intensive nature of business operations owing to large inventory that the company has to maintain for raw material and finished goods, mainly in the steel division. Furthermore, the company purchases most of its raw material on cash/LC basis, while it provides a credit of 50- 60 days to its customers. Elongated operating cycle necessitates higher reliance on bank finance to meet the working capital requirement, which is also reflected in moderately high average month end fund based utilization levels. The operating cycle remains high at around 80 days owing to high inventory required to be maintained in the steel division.

##### **Exposure to raw material price volatility risk in steel pipe segment**

The main raw material for the steel segment of SRL is HR Coil, CR Coil 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 due to nature of the business, SRL is exposed to price volatility risk on its inventory which may adversely impact the margins.

**Adequate Liquidity:** The company has adequate liquidity supported by stable cash accruals of around Rs.207 crore in FY19 and modest principal debt repayment of around Rs.60 crore in the current financial year. The company had a cash balance of Rs.1.63 crore as on March 31, 2019. The total capex envisaged for FY20 is Rs.105 crore to be funded through a debt of around Rs.62 crore for which it has sufficient headroom. Its bank facilities have been utilized to an extent of 84% for the trailing 12-month period ended June 2019 supported by a current ratio of 1.33x as on March 31, 2019.

### Analytical Approach – Standalone

The ratings of CP are based on credit enhancement in the form of unconditional and irrevocable SBLC letters issued by various banks. The ratings also factor in the structured payment mechanism designed to ensure the payment of the rated CPs.

### Applicable Criteria

[Criteria for rating credit enhanced debt](#)

[CARE's criteria on assigning outlook and credit watch](#)

[CARE's policy on default recognition](#)

[CARE's methodology for manufacturing companies](#)

[CARE's criteria for short term instruments](#)

[CARE's rating methodology on financial ratios – Non-financial sector](#)

### About the Company

Surya Roshni Ltd (SRL) was incorporated in 1973 for manufacturing of Electric Resistance Welded (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 division and lighting division. The Lighting division mainly manufactures GLSs and FTLs 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' installed capacity stood at 6 million CFLs per annum, 115.2 million LED lamps, 40 million FTLs and 192 million GLS lamps as on March 31, 2019. 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 7,55,000 MT for varied sizes of pipes and 1,15,000 MT for CR strips and sheets as on March 31, 2019.

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

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	4933.68	5980.77
PBILDIT	348.60	376.00
PAT	108.04	120.88
Overall gearing (times)	1.38	1.24
Interest coverage (times)	3.31	3.27

A: Audited

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

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

## 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 2013	-	October 2026	363.40	CARE A+; Stable
Fund-based - LT-Term Loan	October 2013	-	October 2026	41.96	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	1023.00	CARE A+; Stable
Non-fund-based-LT/ST	-	-	-	1167.32	CARE A+; Stable / CARE A1
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	123.00	CARE A+; Stable / CARE A1
Commercial Paper	-	-	7 to 364 days	100.00	CARE A1+ (CE)
Commercial Paper	-	-	7 to 364 days	0.00	Withdrawn
Commercial Paper	-	-	7 to 364 days	0.00	Withdrawn

## 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	363.40	CARE A+; Stable	-	1)CARE A+; Stable (04-Oct-18) 2)CARE A+; Stable (26-Apr-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A (11-Jul-16) 2)CARE A- (19-Apr-16)
2.	Fund-based - LT-Term Loan	LT	41.96	CARE A+; Stable	-	1)CARE A+; Stable (04-Oct-18) 2)CARE A+; Stable (26-Apr-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A (11-Jul-16) 2)CARE A- (19-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	1023.00	CARE A+; Stable	-	1)CARE A+; Stable (04-Oct-18) 2)CARE A+; Stable (26-Apr-18)	1)CARE A+; Stable (09-Oct-17)	1)CARE A (11-Jul-16) 2)CARE A- (19-Apr-16)
4.	Non-fund-based-LT/ST	LT/ST	1167.32	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (04-Oct-18) 2)CARE A+; Stable / CARE A1	1)CARE A+; Stable / CARE A1 (09-Oct-17)	1)CARE A / CARE A1 (11-Jul-16) 2)CARE A- / CARE A2+ (19-Apr-16)

						(26-Apr-18)		
5.	Fund-based - LT/ ST- Stand by Line of Credit	LT/ST	123.00	CARE A+; Stable / CARE A1	-	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)	1)CARE A / CARE A1 (11-Jul-16) 2)CARE A- / CARE A2+ (19-Apr-16)
6.	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (19-Apr-16)
7.	Commercial Paper	ST	100.00	CARE A1+ (CE)	1)CARE A1+ (CE) (07-Aug-19) 2)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)	-
8.	Commercial Paper	ST	-	-	1)Provisional CARE A1+ (CE) (07-Aug-19) 2)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)	-
9.	Commercial Paper	ST	-	-	1)Provisional CARE A1+ (CE) (07-Aug-19) 2)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) (Under Credit watch with Developing Implications) (10-May-18)	1)CARE A1+ (SO) (Under Credit watch with Developing Implications) (08-Mar-18)	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: None**

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

## Contact us

### Media Contact

Mradul Mishra

Contact no. – +91-22-6837 4424

Email ID – [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### Analyst Contact

Name – Mr. Ajay Dhaka

Contact no- 011-45333218

Email ID- [ajay.dhaka@careratings.com](mailto:ajay.dhaka@careratings.com)

### Relationship Contact

Name: Ms. Swati Agrawal

Contact no. : 011-45333200

Email ID: [swati.agrawal@careratings.com](mailto:swati.agrawal@careratings.com)

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