Surya Roshni Limited **(Revised)**
October 07, 2020

Ratings:

Facilities/Instruments	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	1,057.01 (Reduced from 1,106.61)	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)	Reaffirmed
Total Facilities	2,170.33 (Rs. Two Thousand One Hundred Seventy Crore and Thirty-Three Lakhs Only)		
(i) Commercial Paper^	175.00 (Rs. One hundred and seventy five crore only)	CARE A1+ (CE)[A One Plus (Credit Enhancement)]	Reaffirmed
(ii) Commercial Paper^	25.00 (Rs. Twenty five crore only)	CARE A1+ (CE) [A One Plus (Credit Enhancement)]	Reaffirmed

Details of instruments/facilities in Annexure-1
^Commercial Paper (CP) (i) 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 (up to Rs.50 crore) [SBI, rated CARE AAA; Stable/ CARE A1+, HDFC Bank Ltd (up to Rs.110 crore) (HDFC, rated CARE AAA; stable/ CARE A1+) and Union Bank of India (up to Rs. 40 crore) (rated CARE AA+/ CARE AA/ CARE AA-; Credit watch with Developing implications)]. The rating for Commercial Paper (ii) is backed by credit enhancement (CE) in the form of unconditional and irrevocable Stand by Letter of Credit (SBLC Letter) from Union Bank of India. The said CP is carved out of 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 extensive experience of the promoters of 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 also derive strength from the company's steady operational performance with stable gross cash accruals and improving financial risk profile marked by reduction in gearing and improvement in debt coverage metrics in FY20. The ratings also take note of the strong rebound in operating performance in FY21 year-till-date subsequent to the lockdown and the resultant improvement in cash flows, which is expected to be used to repay debts amid muted capex requirements in the short to medium term.

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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

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, Union 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 structure. Please refer to our website for detailed rating rationale of these SBLC issuing banks.

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

- Sustained trend of growth and improvement in ROCE.
- Reduction in operating cycle and strengthening of liquidity position.
- Improvement in overall gearing to below 0.7 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.
- Deterioration in overall gearing to beyond 1.25 times
- Elongation in operating cycle and resultant weakening of liquidity position.

Detailed description of the key rating drivers

Key Rating Strengths

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.

Steady operational performance: 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 on the back of higher contribution from GI pipes, API pipes and exports, which have relatively higher yield in comparison to other products, besides reduced cost of raw materials. However, the total operating income of the company declined by 8% y-o-y to Rs.5,472.37 crore in FY20 (PY: Rs.5,980.77 crore). The sales were impacted due to lower steel prices, deferment of EESL/Government sales in lighting and the disruption caused by the outbreak of COVID 19 and consequent nation-wide lockdown. Moreover, increased depreciation charge on account of capitalization resulted in moderation in PAT margin to 1.87% in FY20 (PY: 2.02%). Nevertheless, the company has reported higher gross cash accruals (GCA) of Rs.214 crore during FY20 (PY: Rs.207 crore), its GCA remaining consistently above Rs.200 crore over the past few years. The EBIDTA per tonne of the company has grown at CAGR of 19% over a period of last 4 years from Rs. 2,115 per tonne in FY16 to Rs. 3,256 per tonne in FY20. The stable profitability has been an outcome of value-accretive strategies adopted by the company which includes, commissioning and ramping up of new plant at Hindupur, Andhra Pradesh, which brought about savings in logistics costs, economies of scale and reduced dependence on relatively less profitable Bahadurgarh plant, higher capacity utilization and increased contribution from high profit yielding segment – 3LPE coating and thrust on GI, API pipes, exports and other value added pipes. The company has consistently grown its sales in terms of volume at a CAGR of 47% from 2016 to 2020 excluding Bahadurganj unit. Furthermore, the Government's thrust on oil & gas, city gas distribution; 'Nal se Jal' and 'Make in India' augurs well for the business prospects of the company. The company has been recently awarded fresh orders of around Rs.560.31crore from Indian Oil Corporation Ltd (IOCL), Bharat Gas Resources Limited (BRGL), GAIL Limited and Indradhanush Gas Grid Limited (IGGL) for the supply of API grade 3LPE coated line pipes.

Integrated lighting operations: The company has an integrated manufacturing facility to manufacture the various components and the entire range of lighting products (LED, compact florescent lamp (CFL) 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.

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). 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. 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 cash flow from operations to the tune of Rs.280.26 crore during FY20 as compared with Rs. 120.14 crore during FY19. Resultantly, the total debt to gross cash accruals ratio improved and stood at 4.81x as on March 31, 2020 (PY: 6.86x). The PBILDT interest coverage ratio of the company slightly improved to 3.13x during FY20 as against 3.27x during FY19 on account of lower interest cost due to decrease in total debt of the company. The steady collections from customers have continued during Q1FY21 (refers to the period from April 1 to June 30) and the overall gearing further improved and stood comfortable at 0.83x as on June 30, 2020. During Q1FY21, the company reported an operating income of Rs.881.68 crore and a PAT of Rs.1.57 crore which was impacted due to Covid-19. Furthermore, the company reported sales of Rs. 445 cr and Rs. Rs. 486 for the month of July and August, 2020 respectively and collections from customers to the tune of Rs.1,023 crore during July and August 2020.

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

T-1 Day	The issuer shall deposit requisite funds in designated account on T-1 day ('T' being the CP payment due date). 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

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. 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.203.99 crore during FY21 against which it has scheduled repayment obligation of Rs.71.52 crore only. Besides this, the company has projected to incur capex of about Rs. 76 crore out of which Rs.35 crore is for the expansion of LPE coating facilities at Anjar and PVC pipe capacity expansion 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. However, the average working capital utilization remained moderately high during the trailing 12 months ended August 2020 albeit reduction in limit utilization has been witnessed in recent months despite of Covid-19, the sustenance of increasing cushion in the liquidity in the form of undrawn limits shall remain key monitorable. 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 – Sept 2020 thereby reflecting its adequate liquidity position.

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

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+ (CE)
Commercial Paper-Commercial Paper (Carved out)	-	-	7 to 364 days	25.00	CARE A1+ (CE)

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 (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 (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)
3.	Fund-based - LT-Cash Credit	LT	800.00	CARE A+; Stable	-	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 (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 (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+ (CE)	-	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+	1)CARE A1+ (SO) (04-Oct-18) 2)CARE A1+	1)CARE A1+ (SO) (Under Credit watch with

						(CE) (07-Aug-19) 3)CARE A1+ (SO) (04-Apr-19)	(SO) (07-Aug-18) 3)CARE A1+ (SO) (13-Jul-18) 4)CARE A1+ (SO) (Under Credit watch with Developing Implications) (10-May-18)	Developing Implications) (08-Mar-18)
9.	Commercial Paper-Commercial Paper (Carved out)	ST	25.00	CARE A1+ (CE)	-	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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Ajay Dhaka
Contact no. - +91-11-45333218
Email ID- ajay.dhaka@careratings.com

Business Development Contact
Ms. Swati Agrawal
Contact no. - +91-11-4533 3200
Email ID- swati.agrawal@careratings.com

About CARE Ratings:
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