

Surya Roshni Limited

October 17, 2019

Ratings

Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	1,410.33 (reduced from 1,428.36)	CARE A+; Stable [Single A Plus; Outlook: Stable]	Reaffirmed
Long/Short term Bank Facilities – NFB	1,308.32 (enhanced from 1,290.32)	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable/ A One)	Reaffirmed
Total	2,718.65 (Rupees two thousand seven hundred and eighteen crore and sixty five lakh only)		

Details of instruments/facilities in Annexure-1

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.

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.

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, 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

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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 and zinc, 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.60 crore proposed to be funded through a debt of Rs.43.20 crore (yet to be tied up) and balance through internal accruals for which it has sufficient headroom. Its fund-based bank facilities have been utilized to an extent of around 79% (also considering one-way interchangeability of NFB limits into FB) 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

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 ably supported by other professionals.

SRL presently operates in two operational business divisions – Steel division and lighting division. The Lighting division mainly manufactures GLSs, FTLs and entered in manufacturing CFLs in FY07 and LED products in FY14 (from Kashipur plant). 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 ERW pipes, Spiral Pipes of 60,000 MT 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
PBILDT	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	December 2014	-	May 2028	365.57	CARE A+; Stable
Fund-based - LT-Term Loan	January 2015	-	January 2023	39.76	CARE A+; Stable
Fund-based - LT-Cash Credit	-	-	-	1005.00	CARE A+; Stable
Non-fund-based-LT/ST	-	-	-	1157.32	CARE A+; Stable / CARE A1
Fund-based - LT/ ST-Stand by Line of Credit	-	-	-	151.00	CARE A+; Stable / CARE A1

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	365.57	CARE A+; Stable	1)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)	1)CARE A (11-Jul-16) 2)CARE A- (19-Apr-16)
2.	Fund-based - LT-Term Loan	LT	39.76	CARE A+; Stable	1)CARE A+; Stable (30-Sep-19)	1)CARE A+; Stable (04-Oct-18) 2)CARE A+;	1)CARE A+; Stable (09-Oct-17)	1)CARE A (11-Jul-16) 2)CARE A- (19-Apr-16)

						Stable (26-Apr-18)		
3.	Fund-based - LT-Cash Credit	LT	1005.00	CARE A+; Stable	1)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)	1)CARE A (11-Jul-16) 2)CARE A- (19-Apr-16)
4.	Non-fund-based-LT/ST	LT/ST	1157.32	CARE A+; Stable / CARE A1	1)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)	1)CARE A / CARE A1 (11-Jul-16) 2)CARE A- / CARE A2+ (19-Apr-16)
5.	Fund-based - LT/ ST- Stand by Line of Credit	LT/ST	151.00	CARE A+; Stable / CARE A1	1)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)	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) (30-Sep-19) 2)CARE A1+ (CE) (07-Aug-19) 3)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)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)	-
9.	Commercial Paper	ST	-	-	1)Withdrawn (30-Sep-19) 2)Provisional CARE A1+ (CE) (07-Aug-19) 3)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. 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

Name – Mr. Ajay Dhaka
Contact no- 011-45333218
Email ID- ajay.dhaka@careratings.com

Relationship Contact

Name: Ms. Swati Agrawal
Contact no. : 011-45333200
Email ID: swati.agrawal@careratings.com

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**