Surya Roshni Limited

November 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
(i) Commercial Paper	**185 (enhanced from 100.00)**	CARE A1+ (CE)^[A One Plus (Credit Enhancement)]	Reaffirmed
(ii) Commercial Paper	**15**	CARE A1+ (CE)^[A One Plus (Credit Enhancement)]	Final Rating
Total Facilities	**200 (Rupees two hundred crore only)**		

Details of instruments/facilities in Annexure-1

^Commercial Paper (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 [SBI, rated CARE AAA; (stable)/ CARE A1+, HDFC Bank Ltd (HDFC, rated CARE AAA; (stable)/ CARE A1+), Canara Bank and Union Bank of India (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.

Unsupported Rating [2]	**CARE A1 (A One)**

Detailed Rationale & Key Rating Drivers of CP issue backed by SBLC from SBI, HDFC Bank, Canara Bank and Union Bank of India

The reaffirmation of the rating of instrument mentioned in S. no.(i) 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 , HDFC Bank, Canara Bank and Union Bank of India and a payment mechanism designed as per which the Issuing and Paying Agency (IPA) would ensure payment of the CPs as per the terms of the transaction. The Final rating has been assigned to the instrument mentioned in S. no. (ii), which is backed by credit enhancement in the form of unconditional and irrevocable SBLC letter from Union Bank of India having the aforesaid payment mechanism.
The said CPs are carved out of the fund based working capital limits of the company.

Key Rating Drivers of Surya Roshni Ltd (for Unsupported rating)

The unsupported 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 3 LPE 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 pipes business.

Rating Sensitivities

Negative Factors

- Non-continuation of SBLC from the lender or
- Any change in the rating of SBI, HDFC Bank, Union Bank of India (providing credit enhancement through their SBLC) and the credit profile of Canara Bank.

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

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019. As per this circular, the suffix 'CE' (Credit Enhancement) is assigned to the ratings with explicit external credit enhancement, against the earlier used suffix 'SO' (Structured Obligation).*

Detailed description of the key rating drivers

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 Pipes & Strips Division and Lighting and Consumer Durable Division. The company has shown consistent growth in income and profitability over the years and has been paying dividend regularly since 2001. The company's board comprise of eminent and renowned professionals from diverse fields of banking, financial services and lighting including Independent directors Mr. Sudhanshu Kumar Awasthi (Ex-MD PNB Capital Services) and Mr. Sunil Sikka (Ex-President Havells India Ltd). Mr. K.K Narula (Ex-CGM – State Bank of India) is the Chairman of company's audit committee and Mr. Surendra Singh Khurana (Ex-Chairman – Railway Board) is the member of audit, nomination and remuneration committee. The company with a modest beginning in 1973 had set its first galvanizing plant in 1980 and subsequently diversified into lighting 1984 to become one of the leading brands in the lighting division now. The company has also undertaken and implemented various capacity expansions over the last two decades including setting up of new steel pipe plant at Malanpur, Gwalior (MP), in Anjar, Kutchh (Gujarat) and Hindupur (Andhra Pradesh).

Established brand name with wide marketing network

SRL, one of the leading players in Electric Resistance Welded (ERW) pipes segment in India, has an established brand name of "Surya" for its lighting products and 'Prakash-Surya' for 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. The company's product portfolio includes ERW steel tubes pipes, GI black, Hollow section pipes of different dimensions and CR sheets plants in Malanpur (Madhya Pradesh), Hindupur (AP), Bahadurgarh (Haryana) and Anjar (Bhuj-Gujarat) enabling the company to supply steel products to the western and southern parts of the country. The company also exports its lighting products and API certified pipes to more than 50 countries of the world. Exports constituted 13.95% (Rs.833.82 crore) of the total sales for the company in FY19 (Rs.704.22 crore constituting 14.05% of total sales in FY18).

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, municipal, 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. This high level of integration helps the company to achieve better control on the entire value chain and thus results in better profitability margins. Furthermore, the full integration provides flexibility to the company to cater to the demand for new energy saving products like LED besides other conventional lighting products like GLS and FTL. Being an integrated lighting player, the company is able to change the mix of production of GLS, FTL, CFL and LED very quickly accordingly to the demand, thereby catering to both the conventional and modern energy saving lighting products market. The PBIT margin of the lighting division stood moderate at 8.14% and 8.44% in FY19 and FY18 respectively.

Moderately leveraged capital structure

The overall gearing of the company though remained moderate, improved to 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.

Steady operational performance

SRL registered a growth of ~21% y-o-y in total operating income during FY19 supported by healthy demand from both the segments – Steel Pipes & Strips and Lighting and Consumer Durables. The steel pipes division which contributed ~74% of the total operating income during FY19 (PY: ~72%) grew at around 22% while the lighting and consumer durables division grew by around 11% and contributed around 26% of the total operating income during FY19 (PY: ~28%). The company has reported improvement in the capacity utilization for ERW pipes at 89.10% in FY19 as against 80.40% in FY18 on the back of healthy demand. The PBILDT margin of the company witnessed moderation in FY19 to 6.29% (as against 7.07% in FY18) owing to increase in cost of raw materials during FY19 and time lag in passing the increased cost burden to the end consumer. Furthermore, the higher interest cost resulted in moderation in PAT margin to 2.02% during FY19 (as against 2.19% in FY18). 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.

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 Pipes & Strips 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 Pipes and Strips division.

Exposure to raw material price volatility risk in Steel Pipes & Strips segment

The main raw material for the steel pipe 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 albeit with a time lag due to nature of the business, SRL is exposed to price volatility risk on its inventory which may adversely impact the margins. The PBIT margin in the steel pipe segment remained low at 3.64% in FY19 as against 3.96% in FY18. However, the healthy product diversification in the lighting segment provides some stability to the revenue streams and profitability of the company. Further the company procures orders in advance for exports, Oil & Gas and CGD segments prior to procurement of raw materials and hence insulated to some extent against raw material price volatility.

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 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 bank facilities have been utilized to an extent of 79% (also considering one-way interchangeability of NFB limits into FB) for the trailing 12-month period ended June 2019. The current ratio remained adequate at 1.33x as on March 31, 2019.

Analytical approach: Standalone

The approach for the unsupported bank loan facility rating is 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 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
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), later started manufacturing Fluorescent Tube Lamps (FTL), Compact Fluorescent Lamps (CFLs) sold under brand name "Surya". The company set up the R & D Facility for LED products in Noida in 2012 and started the LED production from Kashipur Plant from 2014 onwards. The company has been managed by professional Board of Directors headed by Mr. J. P. Agarwal, Chairman. Mr. Raju Bista, Managing Director along with CEOs for both the divisions & team of professionals, manages the day-to-day affairs of the company.
SRL presently operates in two operational business divisions – Steel Pipes & Strips division and Lighting and Consumer Durable division. The Lighting division mainly manufactures GLSs and FTLs and entered in manufacturing LED's in 2014. 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 pipe division mainly manufactures ERW steel pipes (both American Petroleum Institute (API) and non API standard) and Cold Rolled (CR) strips. In the steel pipe 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	4,933.68	5,980.77
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
Commercial Paper	-	-	7 to 364 days	185.00	CARE A1+ (CE)
Commercial Paper-Commercial Paper (Carved out)	-	-	7 to 364 days	15.00	Provisional 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 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 (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)	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 (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)	1)CARE A (11-Jul-16) 2)CARE A- (19-Apr-16)
3.	Fund-based - LT-Cash Credit	LT	1005.00	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)	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 (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)	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 (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)	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	185.00	CARE A1+ (CE)	1)CARE A1+ (CE) (08-Nov-19) 2)CARE A1+	1)CARE A1+ (SO) (04-Oct-18) 2)CARE A1+	1)CARE A1+ (SO) (08-Mar-18) 2)CARE A1+	-

					(CE) (30-Sep-19) 3)CARE A1+ (CE) (07-Aug-19) 4)CARE A1+ (SO) (04-Apr-19)	(SO) (07-Aug-18) 3)CARE A1+ (SO) (13-Jul-18) 4)CARE A1+ (SO) (10-May-18)	(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)	-
10.	Commercial Paper-Commercial Paper (Carved out)	ST	15.00	CARE A1+ (CE)	1)Provisional CARE A1+ (CE) (08-Nov-19)	-	-	-

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.*

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