April 29, 2021

Surya Roshni Limited: Rating reaffirmed for SBLC-backed Commercial Paper Programme

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper (SBLC-backed)	200.00	200.00	[ICRA]A1+(CE); Reaffirmed
Total	**200.00**	**200.00**	

Rating Without Explicit Credit Enhancement	[ICRA]A1

**Instrument details are provided in Annexure-1*

Note: The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. This rating is specific to the rated instrument/facility, its terms and its structure and does not represent ICRA's opinion on the general credit quality of the entity concerned. The last row in the table above also captures ICRA's opinion on the rating without factoring in the explicit credit enhancement

Rationale

For the [ICRA]A1+(CE) rating

The rating assigned to the Rs. 200-crore CP programmes of Surya Roshni Limited (SRL) is based on stand-by letters of credit (SBLCs) provided by various banks (from among the company's consortium lenders) having a short-term rating of [ICRA]A1+ or equivalent, to support the repayment obligations on the said CP programmes. At present, the said SBLCs are issued by the State Bank of India (SBI; rated [ICRA]A1+), and Union Bank of India (UBI rated [ICRA]A1+). The rating factors in the payment mechanism designed to ensure payment on the rated CPs as per the terms of the transaction. The validity of the ratings is linked to the validity of the SBLC issued by the Banks. Accordingly, at any point of time if an SBLC expires and is not renewed by the Bank/replaced with a fresh SBLC from an eligible Bank, the effective rated exposure may be temporarily lower than the presently rated amount (of Rs. 200 crore).

Instruments with [ICRA]A1 rating are considered to have a very strong degree of safety regarding timely payment of financial obligations. Such instruments carry the lowest credit risk. Within this category, certain instruments are assigned the rating of [ICRA]A1+ to reflect their relatively stronger credit quality.

Adequacy of credit enhancement

The rating of the instrument is based on the credit substitution approach, whereby the rating of the support provider (i.e., issuers of the SBLCs) has been translated to the rating of the said instrument. The SBLC is legally enforceable, irrevocable, unconditional, covers the entire amount and tenor of the rated instrument, and has a well-defined invocation and payment mechanism. Given these attributes, the SBLC provided is adequately strong to result in an enhancement in the rating of the said instrument to [ICRA]A1+(CE) against the rating of [ICRA]A1 without explicit credit enhancement. In case the rating of the SBLC-issuer Banks was to undergo a change, the same would reflect in the rating of the aforesaid instrument as well.

Salient covenants of the rated facility

» *The CP Limit is a sub-limit of Working Capital Limits*

» *The subscription to CP is restricted to the SBLC Issuing Bank's Treasury.*

Key rating drivers and their description

Credit strengths

Unconditional and irrevocable SBLCs issued by different banks - The [ICRA]A1+(CE) rating for SRL's CP programmes is based on the strength of the credit enhancement in the form of unconditional and irrevocable SBLCs issued by different banks (from among the company's consortium lenders), with a short-term rating of [ICRA]A1+ or equivalent. The SBLCs from the Banks would cover all issuer obligations that may arise on the rated CPs as per the terms of the transaction. The terms stated in the SBLC provide an unconditional and irrevocable guarantee by the SBLC issuer to make funds available to the CP investor on the due date, on receipt of a written instruction from the Issuing and Paying Agent (IPA) or the issuer (SRL) or the investor (CP holder) or the Security Trustee.

Payment mechanism designed to ensure timely payment to investors - The rating factors in the payment mechanism, which is designed to ensure payment on the rated CPs as per the terms of the transaction. The payment mechanism is designed to ensure timely payment to the investors, even if the SBLC has to be invoked by the Trustee or the Issuing and Paying Agent (IPA), or the issuer or the investor.

Credit challenges – Not applicable

Liquidity position

For the [ICRA]A1+(CE) rating: Strong

In relation to the CP programmes being rated, based on SBLCs from banks, the liquidity is governed by the liquidity profile of the Banks.

For the [ICRA]A1 rating: Strong

SRL's liquidity position is **strong**, with expected cash flows from operations remaining more than adequate to meet the debt servicing obligations as well as margin funding requirements for capex and working capital. This has enabled the company to prepay part of its term debt obligations, beyond the scheduled repayment obligations, over the past few years. The company's strong liquidity position is corroborated by healthy cushion in the form of undrawn fund-based working capital limits (on an average, the available undrawn limits stood at ~Rs. 450 crore in the 12-month period ending March 2021). As on March 31, 2021, cushion in company's fund-based working capital facilities stood at Rs. 526 crore (factoring in inter-changeability allowed from non-fund based facilities to fund-based facilities).

Rating sensitivities

For the [ICRA]A1+(CE) rating

Negative pressure on the supported ratings of SRL's CP programmes could arise in case of weakening in credit profile of the support providers (SBLC issuers) or change in support provider, with one having a weaker credit profile than the existing support providers, or a weakening of the transaction structure/ payment mechanism.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Approach for rating debt instruments backed by third-party explicit support
Parent/Group Support	Not applicable
Consolidation/Standalone	Consolidated

About the company

Incorporated in October 1973 as Prakash Tubes Private Limited by Mr. B.D. Aggarwal and his son, Mr. J.P. Aggarwal, Surya Roshni Limited began operations as a steel pipe manufacturing unit from Bahadurgarh (Haryana). In FY1985, the company diversified into manufacturing lighting products and established its facilities at Kashipur (Uttarakhand). At present, SRL has two reportable segments—steel pipes and strips, and lighting and consumer durables. All the products in steel pipes and strips segment are sold under the brand 'Prakash Surya' and those in the lighting and consumer durables segment (including all types of lamps, home appliances, PVC pipes, etc) are sold under the 'Surya' brand.

Based on consolidated financials, the steel pipes and strips segment accounted for ~77% of the company's total revenues, while the lighting and consumer durables segment accounted for the balance 23% in FY2020. The company operates four manufacturing units of the steel division in Bahadurgarh (Haryana), Malanpur (Madhya Pradesh), Hindupur (Andhra Pradesh) and Anjar (Gujarat). It manufactures cold rolled (CR) sheets, electric resistance welding (ERW) and spiral pipes of various grades, as well as coated pipes at its newly established 3 LPE coating line at Anjar.

The company's lighting and consumer durables division manufactures various types of lamps, including light-emitting diode (LED) lamps, LED street lights, fluorescent tube lights (FTL), general lighting service (GLS) lamps, and high-intensity discharge (HID) lamps. Currently, the company is one of the major LED lighting providers in the country with a wide range of lamps, tube lights, down lighters and street lights in its LED product portfolio.

Key financial indicators (audited)

SRL Consolidated	FY2019	FY2020	9M FY2021*
Operating Income (Rs. crore)	5,975.0	5,471.1	3842.8
PAT (Rs. crore)	120.8	102.5	99.8
OPBDIT/OI (%)	6.2%	6.5%	6.8%
PAT/OI (%)	2.0%	1.9%	2.6%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.4	NA
Total Debt/OPBDIT (times)	3.2	3.1	NA
Interest Coverage (times)	3.2	3.1	4.8

**Published 9M FY2021 results (unaudited)*
PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

<table>
<tr><th rowspan="3"></th><th rowspan="3">Instrument</th><th colspan="4">Current Rating (FY2022)</th><th colspan="3">Chronology of Rating History for the past 3 years</th></tr>
<tr><th rowspan="2">Type</th><th rowspan="2">Amount Rated (Rs. crore)</th><th rowspan="2">Amount Outstanding as of Mar 31, 2021 (Rs. crore)</th><th>Date & Rating</th><th colspan="2">Date & Rating in FY2020</th><th>Date & Rating in FY2019</th></tr>
<tr><th>Apr 29, 2021</th><th>Jan 7, 2020</th><th>Aug 21, 2019</th><th>Aug 20, 2018
May 18, 2018
April 27, 2018</th></tr>
<tr><td>1</td><td>Commercial Paper</td><td>Long-term</td><td>200.00</td><td>--</td><td>[ICRA]A1+(CE)</td><td>[ICRA]A1+(CE)</td><td>[ICRA]A1+(SO)</td><td>[ICRA]A1+(SO)</td></tr>
</table>

Note:

1. *No rating action in FY2021*
2. *In line with the SEBI circular dated June 13, 2019, the suffix 'CE' (Credit Enhancement) is being used alongside the rating symbol for denoting the rating of instruments backed by explicit credit enhancement, in place of the earlier practice of using the suffix 'SO' ("Structured Obligation"). The change in the suffix should not be construed as a change in the rating.*

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website click here

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA*	Commercial Paper	NA	NA	7-365 days	200.00	[ICRA]A1+(CE)

**No CP placed against [ICRA]A1+(CE) rating*
***Source:** Surya Roshni Limited*

Annexure-2: List of entities considered for consolidated analysis

Company Name	SRL Ownership	Consolidation Approach
Surya Roshni LED Lighting Projects Ltd	100.00%	Full consolidation

***Source:** SRL annual report FY2020*

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About ICRA Limited:

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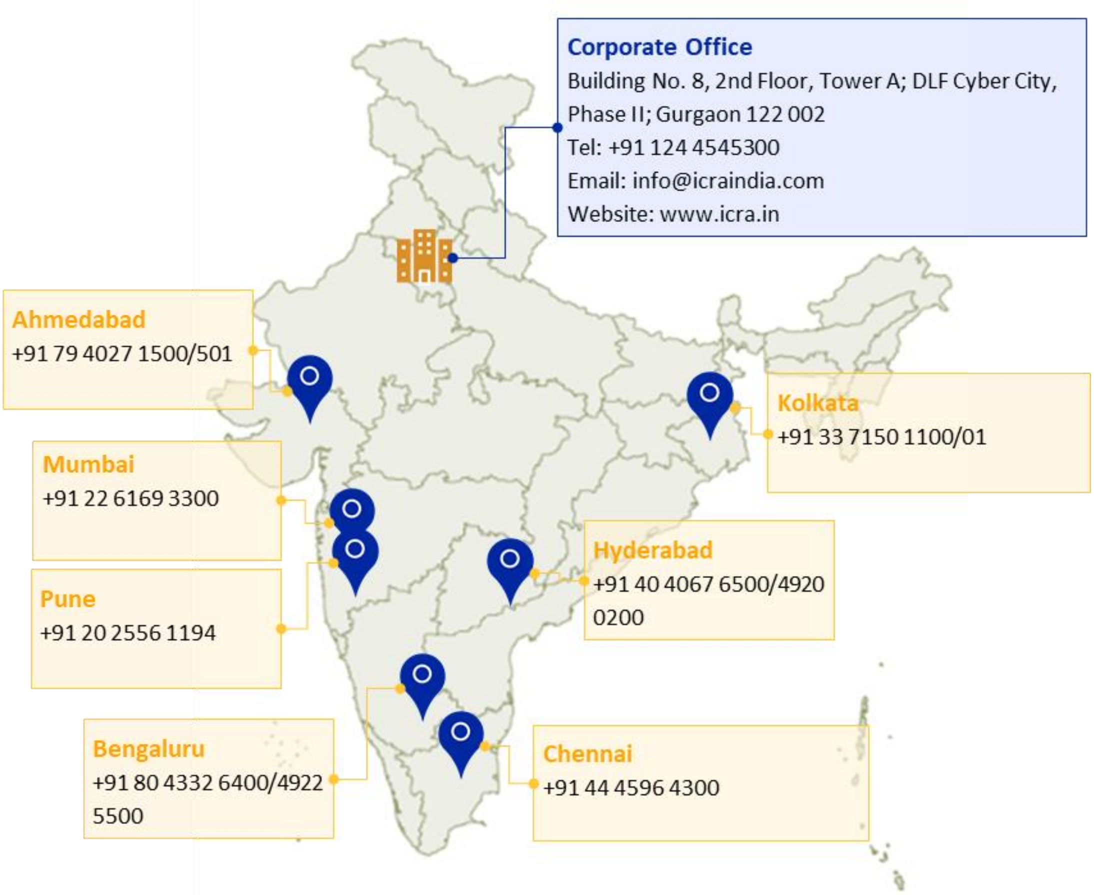

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