April 07, 2022

Surya Roshni Limited: Rating of [ICRA]A1+ assigned for Commercial Paper Programme; rating of [ICRA]A1+(CE) withdrawn

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper (SBLC-backed)^	200.00	0.00	[ICRA]A1+(CE); Withdrawn
Commercial Paper	0.00	200.00	[ICRA]A1+; Assigned
Total	**200.00**	**200.00**	

**Instrument details are provided in Annexure-1*

^Company has discontinued the SBLC structure based on which ICRA used to assign CE rating earlier. Accordingly, CE rating has been withdrawn and short-term rating on a standalone basis has been assigned for the commercial paper borrowing programme of the company.[1]

Rationale

The assigned rating draws strength from Surya Roshni Limited's (SRL) strong operational profile, supported by its established market position in the domestic electric resistance welded (ERW) pipes industry, its geographically-diversified manufacturing base and a pan-India distribution network, long-standing track record of over four decades and its established brands, Surya and Prakash Surya. The rating also takes into account the continued improvement in SRL's financial risk profile, led by sustained healthy operating performance, improved working capital management and ongoing de-leveraging of its balance sheet. ICRA expects the trend in improvement to continue and company's financial risk profile to strengthen over the medium term. The company is expected to clock a robust double-digit growth in FY2022, led by a surge in realisations as well as continued volumetric ramp up. ICRA expects the company to sustain healthy volumes. Together with steady profit margins, this is expected to help the company maintain healthy coverage metrics, despite working capital intensive nature of operations. ICRA notes that the steps being taken by the company to streamline its working capital cycle are favourably contributing to its cash flow generation and have enabled the company to prepay part of its debt obligations, facilitating faster deleveraging of its balance sheet.

The rating is, however, constrained by the intense competition in the steel, lighting, as well as consumer appliances segment due to the presence of both organised and unorganised players. This moderates SRL's pricing power, making it more vulnerable to the volatility in raw material prices. Moreover, cyclicality inherent in the steel business is likely to keep margins and cash flows vulnerable to fluctuations in the raw material prices and demand for final products.

Key rating drivers and their description

Credit strengths

Experienced promoters and long track record of the company – The company has been in the 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. Further, SRL has separate management teams headed by ED & CEOs of respective businesses, being steel pipes & strips and lighting & consumer durables, who are supported by management teams consisting of experienced professionals in the business of steel pipes & strips and lighting & consumer durables.

1 ICRA's withdrawal policy states that for cases where a rating is based on factoring-in some form of explicit third-party credit support (or some structural features), but later if either the support becomes redundant, or is no longer available (or vice-versa), or the terms are amended, ICRA may withdraw the rating and simultaneously assign a fresh rating after taking into account the revised terms/ circumstance.

Healthy operational profile – SRL has a healthy operational profile, characterised by its established brands, Surya and Prakash Surya, its established market position in the domestic electric resistance welded (ERW) pipes industry, its geographically-diversified manufacturing base and a pan-India distribution network. Together with a track record of repeat business from a diversified client base, these strengths have facilitated healthy utilisation of its installed capacities, over the years. Further, these strengths have enabled the company to grow at a healthy pace, reflected in a compounded average growth rate of over 9% in SRL's revenues during the last five years (FY2017-FY2021).

Healthy and improving financial risk profile – SRL has a comfortable financial risk profile, characterised by a conservative capital structure (with estimated debt/net worth of less than 0.5x and total debt/OPBDITA of less than 2x for FY2022E) and healthy debt coverage metrics (with estimated interest cover of 7-8x and DSCR (excluding prepayments) of more than 3x in FY2022E). A healthy growth in turnover supported by continued growth in volumes and a significant increase in realisations, together with prudent working capital management in H1 FY2022 helped the company generate robust free cash flows. The company used the surplus liquidity to partly prepay its debt obligations, deleveraging its balance sheet. The term debt has reduced considerably from a peak of Rs. 440.14 crore as on March 31, 2017 to Rs. 61.00 crore as on March 10, 2022. Sustained healthy volumes along with expectations of steady profitability are expected to keep the company's incremental reliance on debt low for the planned capital expenditure requirements and its capitalisation and coverage metrics healthy.

Credit challenges

Working capital intensive operations – SRL's business remains working capital intensive, with high inventory holding requirements (66 days in H1 FY2022), exposing the profitability to volatility in raw material prices. Also, as a result, reliance on working capital borrowings remains high. This is corroborated from the fund-based working capital limit utilisation averaging at over 64% of drawing power available, in the 6-month period ended February 2022.

Vulnerability to fluctuation in raw material prices in steel segment – The company manufactures steel pipes which is a limited value addition business. Therefore, SRL being a steel convertor, is exposed to the volatility in steel prices on account of a lag in price adjustments following the fluctuations in the price of hot-rolled coils, in addition to the maintenance of inventory to cater to market demand in a timely manner. Hence, prudent working capital management is crucial to safeguard against any significant price movements. Nevertheless, a part of its steel pipe business is backed by confirmed orders which mitigate the inventory price fluctuation risk to some extent. Also, the company's focus on working capital management and increasing the proportion of value-added products in the revenue mix mitigate the risk to some extent. Nevertheless, in case of an adverse demand-supply scenario, the inability to pass on the raw material price hike to its buyers could adversely impact profitability.

Intensely competitive scenario in steel, lighting, as well as consumer appliances segment – The ERW pipes market is inherently competitive with the presence of several large established players like APL Apollo, Jindal Pipes, Welspun Corp. etc. As ERW pipe manufacturing is not a capital-intensive process, the barriers to the entry of new players are low and, hence, the industry has many unorganised players too. Further, the domestic lighting and consumer appliance industries also have several large and diversified players such as Philips, and Havells, besides imports, as well as single-product/segment companies and unorganised players, given the low entry barriers in the form of capital requirements and technological complexity. Stiff competition from several organised and unorganised players limits pricing flexibility and results in moderate profitability.

Liquidity position: 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 its healthy cushion in the form of undrawn fund-based working capital limits (on an average, the available undrawn limits stood at more than ~Rs. 500 crore in the 6-month period ending Feb 2022). As on Feb 28, 2022, the cushion in the company's fund-based working capital facilities stood at Rs. 495 crore (factoring in inter-changeability allowed from non-fund based facilities to fund-based facilities).

Rating sensitivities

Positive factors: Not Applicable

Negative factors: ICRA could downgrade the rating in case of a sustained deterioration in profitability and cash accruals, or if any sizeable debt-funded capex affects the capitalisation and coverage metrics and liquidity profile. Specific metrics to include Debt/OPBDITA of more than 2 times, and DSCR (adjusted for prepayments) of less than 2.5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Policy on Withdrawal of Credit Ratings
Parent/Group Support	Not Applicable
Consolidation/Standalone	The rating is based on the consolidated financial statements of the company

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 the Lighting and Consumer Durables segments. All the products in steel pipes and strips segment are sold under the brand name 'Prakash Surya' and products in lighting and consumer durables segment (including all types of lamps, home appliances, PVC pipes) are sold under the brand name 'Surya'.

Based on consolidated financials, the Steel Pipe & Strips segment accounted for ~78% of the company's total revenues, while the Lighting and Consumer Durables segment accounted for the balance 22% in FY2021. The company is operating four manufacturing units in its Steel division in Bahadurgarh (Haryana), Malanpur (Madhya Pradesh), Hindupur (Andhra Pradesh) and Anjar (Gujarat). It manufactures cold rolled (CR) strips and electric resistance welding (ERW and spiral pipes of various grades and coated pipes at its newly established 3 LPE coating line at Anjar (Gujarat).

Under the Lighting and Consumer Durables division, the company manufactures various types of lamps including light-emitting diode (LED) Lamps, LED street lights, fluorescent tube lights (FTL), general lighting service (GLS) lamps, high-intensity discharge (HID) lamps. At present, the company is one of the major LED Lighting providers in the country with a wide range of LED Lamps, LED tube lights, LED down lighters and LED street lights in its LED product portfolio.

Key financial indicators (audited)

SRL Consolidated	FY2020	FY2021	H1 FY2022
Operating Income (Rs. crore)	5,471.1	5,561.4	3,391.1
PAT (Rs. crore)	102.5	158.3	81.6
OPBDIT/OI (%)	6.5%	6.8%	5.7%
PAT/OI (%)	1.9%	2.8%	2.4%
Total Outside Liabilities/Tangible Net Worth (times)	1.4	1.2	1.2
Total Debt/OPBDIT (times)	3.1	1.9	1.7
Interest Coverage (times)	3.1	5.4	6.1

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

	Instrument	Current Rating (FY2023)						Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of Mar 31, 2021 (Rs. crore)	Date & Rating		Date & Rating in FY2021	Date & Rating in FY2020		Date & Rating in FY2019
					Apr 7, 2022	Apr 29, 2021	-	Jan 7, 2020	Aug 21, 2019	Aug 20, 2018 May 18, 2018 April 27, 2018
1	Commercial Paper	Short-term	200.00	--	[ICRA]A1+(CE); Withdrawn	[ICRA]A1+(CE)	-	[ICRA]A1+(CE)	[ICRA]A1+(SO)	[ICRA]A1+(SO)
2	Commercial Paper	Short-term	200.00	--	[ICRA]A1+	-	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Commercial Paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA’s website: www.icra.in

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	-	200.00	[ICRA]A1+(CE); Withdrawn
NA*	Commercial Paper	NA	NA	7-365 days	200.00	[ICRA]A1+

**No CP placed against [ICRA]A1+(CE) and [ICRA]A1+ 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: *Company*

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