January 07, 2020

Surya Roshni Limited: Rating reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Commercial Paper	100.00	100.00	[ICRA]A1+(CE); Reaffirmed
Commercial Paper	--	100.00	[ICRA]A1+(CE); Assigned
Total	**100.00**	**200.00**	

**Instrument details are provided in Annexure-1*

Rating Without Explicit Credit Enhancement	**[ICRA]A2+**

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

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+), HDFC Bank 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.

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. The (CE) suffix mentioned alongside the rating symbol indicates that the rated instrument/facility is backed by some form of explicit credit enhancement. [ICRA]A1+(CE) 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.

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]A2+ 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 related to the credit enhancement, as specified in the SBLC document:

» *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.*

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, with a short-term rating of [ICRA]A1+ or equivalent. The SBLCs from banks would cover all issuer obligations that may arise on the rated CPs as per the terms of the proposed transaction.

Payment mechanism designed to ensure timely payment to the 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.

Liquidity position: 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.

Rating sensitivities

For the [ICRA]A1+(CE) rating

Positive triggers: Not applicable

Negative triggers: 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 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	Not applicable

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 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 ~74% of the company's total revenues, while the lighting and consumer durables segment accounted for the balance 26% in FY2019. The company is operating four manufacturing units in steel division in Bahadurgarh (Haryana), Malanpur (Madhya Pradesh), Hindupur (Andhra Pradesh) and Anjar (Gujarat). It manufactures cold rolled (CR) sheets 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, FTL (fluorescent tube lights), GLS (general lighting service) lamps, high-intensity discharge (HID) lamps. Presently, 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 of Surya Roshni Limited (audited)

Particulars	FY2018	FY2019	H1 FY2020
Operating Income (Rs. crore)	4,931.2	5,975.0	2,734.0
PAT (Rs. crore)	108.0	120.8	41.7
OPBDIT/OI (%)	7.0%	6.2%	6.1%
RoCE (%)	12.2%	12.5%	10.0%
Total Outside Liabilities/Tangible Net Worth (times)	1.73	1.63	1.54
Total Debt/OPBDIT (times)	3.17	3.20	3.40
Interest Coverage (times)	3.29	3.23	2.81
DSCR*	2.18	2.42	2.07

Note: H1 FY2020 financials are based on abridged reported financials. The financials for FY2019 and H1 FY2020 are the consolidated financials of Surya Roshni Limited, including financials of a subsidiary – Surya Roshni LED Lighting Projects Limited, which was incorporated in January 2019. FY2018 financials are standalone.

**Adjusted for short-term debt and pre-payments*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	FY2020					Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	FY2020	FY2019	FY2018	FY2017
					07-Jan-20	21-Aug-19	20-Aug-18 18-May-18 27-Apr-18	11-Dec-17 03-Nov-17 25-Jul-17 31-May-17	29-Mar-17 21-Feb-17 30-Dec-16 20-Dec-16 6-Dec-16 23-Nov-16 17-Oct-16 07-Oct-16 05-Oct-16 27-Sep-16 16-Aug-16 28-Jun-16 30-May-16 20-Apr-16 07-Apr-16 01-Apr-16
1	CP	ST	100.00	--	[ICRA]A1+(CE)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)	[ICRA]A1+(SO)
2	CP	ST	100.00	--	[ICRA]A1+(CE)	--	--	--	--

Amount in Rs. crore

Note: 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 www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	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)

Source: Surya Roshni Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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