

Surya Roshni

HOLD

Result below expectations; maintain HOLD

Summary

Surya Roshni's Q3FY24 result was below our expectations. Steel pipes segment EBITDA/t decreased by 9% YoY, although it recovered 21% QoQ to Rs6,156. Also, it continued to maintain robust order book of Rs6 bn from oil and gas sector and export business. Lighting and Consumer Durables segment sales were flat YoY to Rs4,030 mn; nevertheless, segment EBITDA increased 38% YoY to Rs380 mn. Lastly, its net debt fell by Rs1.7 bn in 9MFY24; the company aims to become net debt free by the end of FY24. The company aims to increase the intensity of capex in FY25 and is planning a greenfield expansion. We lower our FY24 EBITDA estimate by 14% given weaker than expected Q3FY24 EBITDA but broadly maintain our FY25 forecasts. We introduce FY26 estimates in this report. Our revised SOTP-based target price stands at Rs738 (earlier Rs530); maintain HOLD rating

Key Highlights and Investment Rationale

- Steel Pipes order backlog strong:** Steel pipes sales decreased by 6% YoY to Rs1.5 bn due to slowdown in demand of high value added products in pipe segment. Nevertheless, EBITDA/t recovered 21% QoQ to Rs6,156. The company targets EBITDA/t at Rs6,500 and above in FY25. The company continued to maintain robust order book of Rs6.0 bn from oil & gas sector and export market. Further, the company has guided 10%/15% volume growth in Q4FY24/FY25.
- Lighting and Consumer Durables margins improve:** In Lighting and Consumer Durables division, Consumer Durables sales remained flat YoY to Rs4,030 mn while its EBITDA margin improved 244 bps YoY to 9.3% driven by backward integration resulted in higher operating profitability. Going ahead, the company targets 15% volume growth and EBITDA margin to reach at 10% during FY25.

TP	Rs738
CMP	Rs730
Potential upside/downside	1%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(4.0)	41.2	135.3
Rel to Sensex	(3.2)	31.2	116.8

V/s Consensus

EPS (Rs)	FY24E	FY25E	FY26E
IDBI Capital	30	43	50
Consensus	--	--	--
% difference	--	--	--

Key Stock Data

Bloomberg / Reuters	SYR IN / SURR.BO
Sector	Diversified
Shares o/s (mn)	109
Market cap. (Rs mn)	79,481
3-m daily average value (Rs mn)	26.3
52-week high / low	Rs842 / 301
Sensex / Nifty	71,428 / 21,718

Shareholding Pattern (%)

Promoters	63.0
FII	5.3
DII	0.1
Public	31.6

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24E	FY25E	FY26E
Revenue	77,308	79,967	77,141	84,855	93,340
Change (yoy, %)	39	3	(4)	10	10
EBITDA	4,429	6,142	5,692	7,448	8,349
Change (yoy, %)	17	39	(7)	31	12
EBITDA Margin(%)	5.7	7.7	7.4	8.8	8.9
Adj.PAT	2,049	3,355	3,243	4,636	5,315
EPS (Rs)	19	31	30	43	50
Change (yoy, %)	30.9	63.7	(3.3)	43	15
PE(x)	38.0	23.2	24.0	17	15
Dividend Yield (%)	0.5	1.0	1.4	2	3
EV/EBITDA (x)	18.9	13.4	14.1	10.5	9.1
RoE (%)	14.1	19.7	16.4	21	20
RoCE (%)	15.3	21.8	19	25	25

Source: IDBI Capital Research

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Exhibit 1: Quarterly Snapshot (Standalone)

(Rs mn)

Year-end: March	Q3FY24	Q2FY24	QoQ (%)	Q3FY23	YoY (%)
Net sales	19,375	19,155	1.1	20,211	(4.1)
Expenditure	17,829	17,782	0.3	18,584	(4.1)
EBITDA	1,546	1,373	12.6	1,628	(5.0)
<i>EBITDA margin (%)</i>	<i>8.0%</i>	<i>7.2%</i>	<i>81bps</i>	<i>8.1%</i>	<i>-8bps</i>
Interest	73	64	13.6	112	(34.7)
Depreciation	301	290	3.8	298	0.8
Other Income	37	15	152.0	9	328.7
PBT	1,209	1,033	17.0	1,226	(1.4)
Tax	309	275	12.6	330	(6.3)
Net income	900	759	18.6	896	0.4
Diluted EPS (Rs)	16.5	13.9	18.6	16.5	0.4

Source: Company; IDBI Capital Research

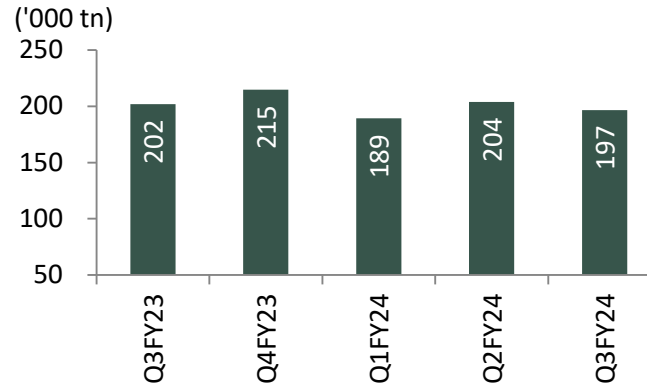
Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q3FY24E	Q3FY24A	Variance (%)
Net sales	20,113	19,375	(3.7)
EBTIDA	1,895	1,546	(18.5)
Margin (%)	9.4%	8.0%	-145bps
Net profit	1,183	900	(23.9)
Adj. diluted EPS (Rs)	21.7	16.5	(23.9)

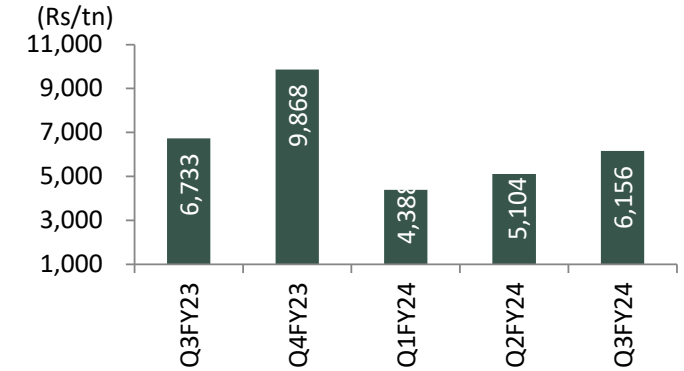
Source: Company; IDBI Capital Research

Exhibit 3: Steel pipes sales volume remained flat YoY



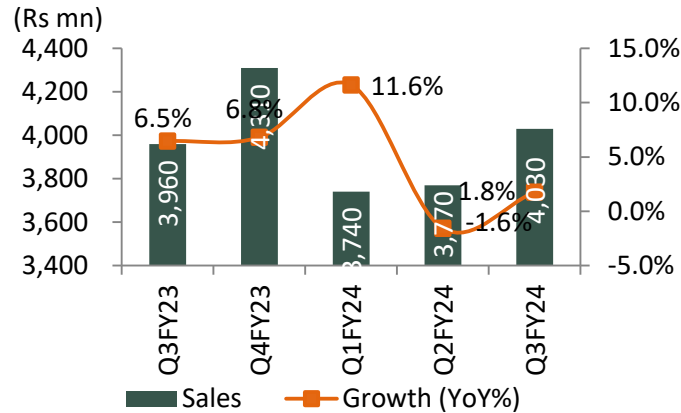
Source: Company; IDBI Capital Research

Exhibit 4: Steel pipes EBIDTA/t decreased by 9% YoY



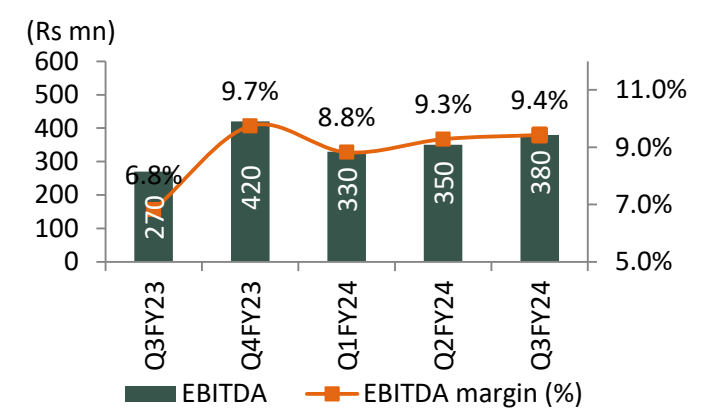
Source: Company; IDBI Capital Research

Exhibit 5: Lighting & Consumer Durables sales remained flat YoY



Source: Company; IDBI Capital Research

Exhibit 6: Lighting & Consumer Durables EBIDTA grew 38% YoY



Source: Company; IDBI Capital Research

Exhibit 7: Valuation (FY25 estimates)

(Rs mn)

Steel pipes EBITDA	6,690
Multiple assigned (x)	9.0
Derived value [A]	60,214
Lighting & Consumer Durables EBITDA	1,659
Multiple assigned (x)	10.0
Derived value [B]	16,588
Total EV [A+ B]	76,802
Less: net debt	-1,868
Derived market-cap	78,670
Value per share	738

Source: IDBI Capital Research

Exhibit 8: Change in estimates

	FY24E			FY25E			FY26E
	Old	New	(%) Chg	Old	New	(%) Chg	New
Revenue (Rs mn)	77,141	77,141	-	84,855	84,855	-	93,340
EBITDA (Rs mn)	6,652	5,692	(14)	7,448	7,448	-	8,349
EBITDA margin (%)	8.62%	7.4%	-124bps	8.78%	8.8%	0bps	8.9
Net profit (Rs mn)	3,961	3,243	(18.1)	4,636	4,636	-	5,315
EPS (Rs)	37	30.4	(18.1)	43	43.5	-	50

Source: Company; IDBI Capital Research

Conference call highlights

Guidance:

- The company has guided more than 15% growth in steel pipe, Lighting and consumer durable segment. Also, the company will be debt free by the end of FY24. The company will start the new project in the western part of the country with a capex of Rs3 bn.

Other Highlights:

- The company majorly exports to Saudi Arabia and Egypt in Middle East. Also, the company is gaining traction from the countries like Canada, Europe, Australia and New Zealand.
- During the quarter the company interacted with 10,000 retailers.

Lighting and Consumer Durables:

- During the quarter the company witnessed robust volume growth led by better product mix and decrease in the gas prices.
- During the quarter the company received a big order of Rs750 mn from L&T.
- In Q3FY24, professional lighting business has witness high-teen digit growth driven by infrastructure and industrial projects.
- The company has launched new products in FMEG segment for festive season.

Steel Pipe and Strips:

- During the quarter, Steel pipe segment witnessed a volume de-growth of 2.5% led by slowdown in demand of high value added products.
- The company is expanding its GP and CR coils/pipe capacity of its Hindupur plant from 8,000 MTPA to 12,000 MTPA with a capex of Rs 750mn. The plant will get commissioned in H2FY25.
- During the quarter the company has installed spiral plant in Gwalior with a capex of Rs220 mn.
- During the quarter the company has received 15,000 tonnes water pipe order.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Net sales	55,544	77,308	79,967	77,141	84,855	93,340
<i>Change (yoy, %)</i>	1.6	39	3	(4)	10	10
Operating expenses	(51,774)	(72,879)	(73,826)	(71,449)	(77,407)	(84,991)
EBITDA	3,770	4,429	6,142	5,692	7,448	8,349
<i>Change (yoy, %)</i>	6.6	17	39	(7)	31	12
<i>Margin (%)</i>	6.8	5.7	7.7	7.4	8.8	8.9
Depreciation	(1,027)	(1,084)	(1,154)	(1,182)	(1,230)	(1,279)
EBIT	2,743	3,345	4,988	4,510	6,218	7,070
Interest paid	(698)	(637)	(449)	(215)	(108)	(54)
Other income	47	58	54	86	88	90
Pre-tax profit	2,091	2,767	4,593	4,381	6,198	7,106
Tax	(526)	(717)	(1,237)	(1,138)	(1,562)	(1,791)
<i>Effective tax rate (%)</i>	25.2	25.9	26.9	26.0	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	1,565	2,049	3,355	3,243	4,636	5,315
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,565	2,049	3,355	3,243	4,636	5,315
<i>Change (yoy, %)</i>	53.1	31	64	(3)	43	15
EPS	14.7	19.2	31.5	30.4	43.5	49.8
Dividend per sh	1.8	4.0	7.0	10.0	15.0	20.0
<i>Dividend Payout %</i>	12.2	20.8	22.3	33	35	40

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Shareholders' funds	13,652	15,476	18,636	20,812	23,849	27,031
Share capital	536	533	538	538	538	538
Reserves & surplus	13,116	14,943	18,098	20,274	23,311	26,493
Total Debt	7,173	5,931	4,178	2,610	710	710
Other liabilities	754	689	809	809	809	809
Curr Liab & prov	7,812	9,051	6,949	7,592	8,299	9,077
Current liabilities	6,682	8,050	6,427	7,069	7,776	8,554
Provisions	1,130	1,001	523	523	523	523
Total liabilities	15,739	15,671	11,936	11,010	9,817	10,595
Total equity & liabilities	29,391	31,147	30,572	31,823	33,666	37,626
Net fixed assets	10,289	9,848	9,096	9,713	10,484	11,205
Investments	138	110	114	114	114	114
Other non-curr assets	618	513	488	488	488	488
Current assets	18,346	20,676	20,874	21,507	22,580	25,819
Inventories	8,682	9,876	11,523	11,754	11,989	12,588
Sundry Debtors	7,532	8,882	7,469	7,693	8,078	8,482
Cash and Bank	9	9	16	51	425	2,578
Other current assets	2,122	1,910	1,866	2,009	2,088	2,171
Total assets	29,391	31,147	30,572	31,823	33,666	37,626

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Pre-tax profit	2,091	2,767	4,593	4,381	6,198	7,106
Depreciation	1,027	1,084	1,154	1,182	1,230	1,279
Tax paid	(499)	(788)	(1,136)	(1,138)	(1,562)	(1,791)
Chg in working capital	2,019	(1,304)	(2,337)	188	87	(226)
Other operating activities	(56)	(78)	(82)	(86)	(90)	(90)
Cash flow from operations (a)	4,583	1,681	2,192	4,527	5,863	6,278
Capital expenditure	(555)	(643)	(402)	(1,800)	(2,000)	(2,000)
Chg in investments	(99)	27	(3)	-	-	-
Other investing activities	-	-	-	-	-	-
Cash flow from investing (b)	(654)	(616)	(405)	(1,800)	(2,000)	(2,000)
Equity raised/(repaid)	(8)	(3)	5	-	-	-
Debt raised/(repaid)	(3,737)	(1,242)	(1,753)	(1,568)	(1,900)	-
Dividend (incl. tax)	(190)	(427)	(747)	(1,067)	(1,600)	(2,133)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
Cash flow from financing (c)	(3,935)	(1,671)	(2,495)	(2,635)	(3,500)	(2,133)
Net chg in cash (a+b+c)	(7)	(606)	(708)	93	363	2,145

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
Book Value (Rs)	128.0	145	175	195	224	253
Adj EPS (Rs)	14.7	19.2	31.5	30.4	43.5	49.8
Adj EPS growth (%)	56.2	31	64	-3	43	15
EBITDA margin (%)	6.8	5.7	7.7	7.4	8.8	8.9
Pre-tax margin (%)	3.8	3.6	5.7	5.7	7.3	7.6
Net Debt/Equity (x)	0.5	0.4	0.2	0.1	0.0	-0.1
ROCE (%)	12.0	15	22	19	25	25
ROE (%)	12.0	14	20	16	21	20

DuPont Analysis

Asset turnover (x)	1.9	2.6	2.6	2.5	2.6	2.5
Leverage factor (x)	2.3	2.1	1.8	1.6	1.5	1.4
Net margin (%)	2.8	2.7	4.2	4.2	5.5	5.7

Working Capital & Liquidity ratio

Inventory days	57	47	53	56	52	49
Receivable days	49	42	34	36	35	33
Payable days	34	30	20	23	23	23

Valuations

Year-end: March	FY21	FY22	FY23	FY24E	FY25E	FY26E
PER (x)	49.8	38.0	23.2	24.0	16.8	14.6
Price/Book value (x)	5.7	5.0	4.2	3.7	3.3	2.9
EV/Net sales (x)	1.5	1.1	1.0	1.0	0.9	0.8
EV/EBITDA (x)	22.6	18.9	13.4	14.1	10.5	9.1
Dividend Yield (%)	0.2	0.5	1.0	1.4	2.1	2.7

Source: Company; IDBI Capital Research



Notes

Dealing

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Key to Ratings Stocks:**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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