

## Surya Roshni

HOLD

Result below expectations; maintain HOLD

## Summary

Surya Roshni's Q4FY24 performance was below our expectations. Revenue fell 3.3% YoY due to even decline in revenue in Steel pipe and Lighting segments on significant headwinds. Steel pipes segment EBITDA/t fell by 40.5% YoY to Rs5,877. Moreover, Surya repaid debt of Rs4.0 bn in FY24 and now has a net cash of 650mn. Surya aims to increase its capacity in steel pipe segment from 1.2 mn tonne to 2.0 mn tonne over next 2 years with total cap-ex of Rs 5.0bn. Further, Surya expects EBITDA/t to remain between Rs5,400-5,500/t in FY25 and increase progressively upwards of Rs6,500/t as 70% of the new capacity will be for value added products. We lower our FY25E/FY26E EBITDA estimate by 14%/9%, respectively. We arrive at target price of Rs627 (earlier Rs738) based on SOTP method. We maintain our HOLD rating on the stock.

## Key Highlights and Investment Rationale

- Robust order book in Steel Pipes segment:** Steel pipes sales decreased 3% YoY due to significant drop in steel prices and muted volume growth (up 4% YoY) as B2B business witnessed a temporary slowdown due to General Elections. Nevertheless, EBITDA/t took a dip by 40% YoY to Rs5,877 on muted value added product sale (32% decline in API pipes revenue) and inventory losses. Surya continued to maintain robust order book of Rs8.0 bn and guided for 15% volume growth with 15-17% topline growth in FY25.
- Lighting and Consumer Durables margins to improve:** Revenue declined 3% YoY Rs4,180 mn on significant price erosion in consumer lighting business. EBITDA margin improved 81 bps YoY to 10.6% led by strong volume growth coupled with better product-mix and cost savings on the back of PLI led backward integration. The company expects 20% volume growth in lighting business in FY25, with improvement in margins.

<b>TP</b>	<b>Rs627</b>
<b>CMP</b>	<b>Rs578</b>
Potential upside/downside	9%
Previous Rating	HOLD

## Price Performance (%)

	-1m	-3m	-12m
Absolute	3.6	(10.0)	42.8
Rel to Sensex	4.1	(11.3)	25.7

## V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	36	44
Consensus	43	50
% difference	(16.5)	(12.4)

## Key Stock Data

Bloomberg / Reuters	SYR IN / SURR.BO
Sector	Diversified
Shares o/s (mn)	109
Market cap. (Rs mn)	62,864
3-m daily average value (Rs mn)	18.2
52-week high / low	Rs842 / 364
Sensex / Nifty	72,987 / 22,201

## Shareholding Pattern (%)

Promoters	63.0
FII	5.0
DII	0.1
Public	31.9

## Financial snapshot

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	77,308	79,960	78,085	87,997	99,300
Change (yoy, %)	39	3	(2)	13	13
EBITDA	4,429	6,134	5,721	6,469	7,598
Change (yoy, %)	17	39	(7)	13	17
EBITDA Margin(%)	5.7	7.7	7.3	7.4	7.7
Adj.PAT	2,049	3,348	3,289	3,982	4,748
EPS (Rs)	19	31	30	37	44
Change (yoy, %)	30.9	63.4	(1.8)	21	19
PE(x)	31	19	19	16	13
Dividend Yield (%)	0.7	1.2	0.4	0.5	0.5
EV/EBITDA (x)	15.5	10.9	10.9	9.6	8.1
RoE (%)	14.1	19.6	16.3	17.0	16.0
RoCE (%)	15.3	21.8	19.7	21.3	20.3

Source: IDBI Capital Research

## Ajit Sahu

ajit.sahu@idbicapital.com  
+91-22-4069 1849

**Exhibit 1: Quarterly Snapshot (Standalone)**

(Rs mn)

Year-end: March	Q4FY24	Q3FY24	QoQ (%)	Q4FY23	YoY (%)
<b>Net sales</b>	<b>20,804</b>	<b>19,375</b>	<b>7.4</b>	<b>21,512</b>	<b>(3.3)</b>
Expenditure	19,145	17,829	7.4	18,988	0.8
<b>EBITDA</b>	<b>1,659</b>	<b>1,546</b>	<b>7.3</b>	<b>2,524</b>	<b>(34.3)</b>
<i>EBITDA margin (%)</i>	<i>8.0%</i>	<i>8.0%</i>	<i>-1bps</i>	<i>11.7%</i>	<i>-376bps</i>
Interest	40	73	(45.1)	99	(59.5)
Depreciation	294	301	(2.2)	288	2.0
Other Income	69	37	84.2	15	358.0
<b>PBT</b>	<b>1,393</b>	<b>1,209</b>	<b>15.2</b>	<b>2,152</b>	<b>(35.3)</b>
Tax	354	309	14.6	597	(40.6)
<b>Net income</b>	<b>1,039</b>	<b>900</b>	<b>15.4</b>	<b>1,555</b>	<b>(33.2)</b>
<b>Diluted EPS (Rs)</b>	<b>9.6</b>	<b>8.3</b>	<b>15.4</b>	<b>14.3</b>	<b>(33.2)</b>

Source: Company; IDBI Capital Research

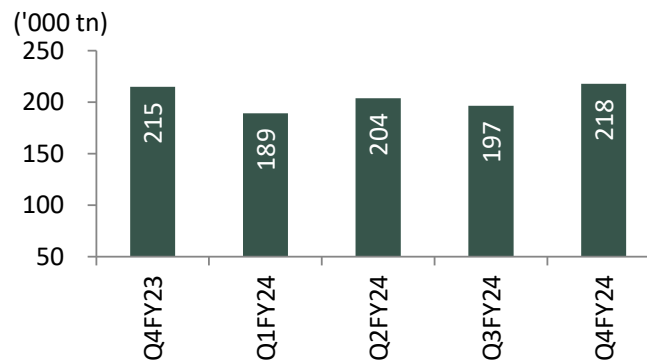
**Exhibit 2: Actual vs. Estimates**

(Rs mn)

	Q4FY24E	Q4FY24A	Variance (%)
<b>Net sales</b>	<b>22,930</b>	<b>20,804</b>	<b>(9.3)</b>
EBTIDA	1,848	1,659	(10.2)
<b>Margin (%)</b>	<b>8.1%</b>	<b>8.0%</b>	<b>-9bps</b>
Net profit	1,157	1,039	(10.2)
<b>Adj. diluted EPS (Rs)</b>	<b>10.7</b>	<b>9.6</b>	<b>(10.5)</b>

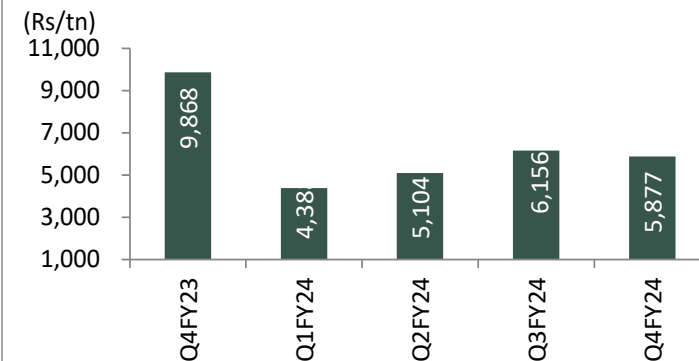
Source: Company; IDBI Capital Research

**Exhibit 3: Steel pipes sales volume**



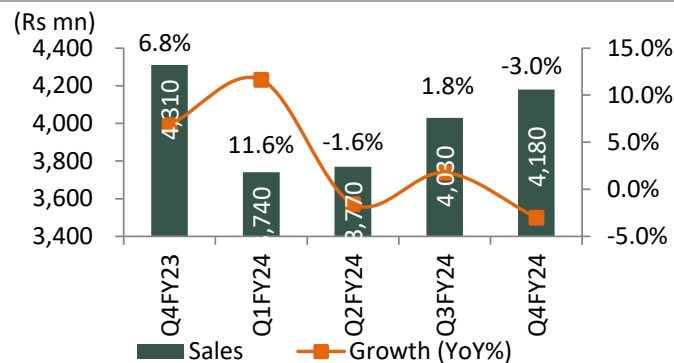
Source: Company; IDBI Capital Research

**Exhibit 4: Steel pipes EBIDTA/t fell by 40.5% YoY**



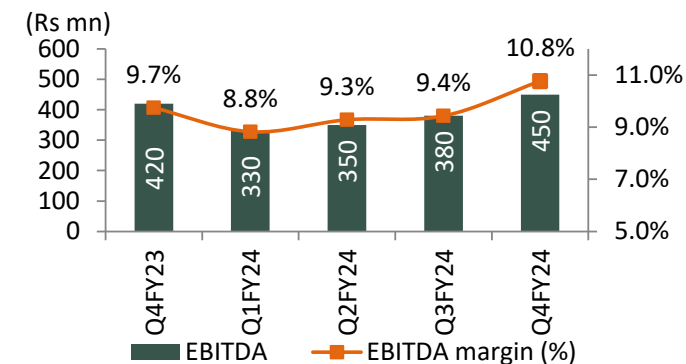
Source: Company; IDBI Capital Research

**Exhibit 5: Lighting & CD sales decreased 3.0% YoY**



Source: Company; IDBI Capital Research

**Exhibit 6: Lighting & CD EBITDA grew 7% YoY**



Source: Company; IDBI Capital Research

**Exhibit 7: Valuation (FY26 estimates)**

	(Rs mn)
Steel pipes EBITDA	5,918
Multiple assigned (x)	8.0
<b>Derived value [A]</b>	<b>47,340</b>
Lighting & Consumer Durables EBITDA	1,965
Multiple assigned (x)	10.0
<b>Derived value [B]</b>	<b>19,649</b>
<b>Total EV [A+ B]</b>	<b>66,989</b>
Less: net debt	-806
<b>Derived market-cap</b>	<b>67,796</b>
<b>Value per share</b>	<b>627</b>

Source: IDBI Capital Research

**Exhibit 8: Change in estimates**

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	84,855	87,947	3.6	93,340	99,300	6.4
EBITDA (Rs mn)	7,448	6,419	(13.8)	8,349	7,598	(9.0)
EBITDA margin (%)	8.80%	7.3%	-150bps	8.90%	7.7%	-125bps
Net profit (Rs mn)	4,636	3,932	(15.2)	5,315	4,748	(10.7)
EPS (Rs)	43.5	36.4	(16.4)	50	43.9	(12.2)

Source: Company; IDBI Capital Research

## Conference call highlights

- Revenue de-grew 3.0% YoY mainly due to low volumes in API spiral pipes on account of general election and decline in steel prices.
- Value added products contributed 45% of sales, while exports contributed 18% to the total sales.
- EBITDA has almost doubled itself in last 2-3 years showcasing operational efficiency.
- Company is now looking forward for huge cap-ex in the next few years. A budget of 500cr has been allocated to steel pipes and strips segment which includes increment of capacity from 1.2mn to 2.0mn which will include both capacity expansion and new capacity installation.
- Budget of Rs100cr has been allocated to Lighting and Consumer Durables Segment with fixed expenditure of 25cr per year.
- Monthly capacity is expected to be increased by 15,000tn per month for steel pipes and strips segment.
- Spiral plant with capacity of 60,000tn at Gwalior facility, Coal rolling pipe facility at Bahadurgarh will get expansion of about 36,000tn
- New cap-ex will focus 70% on Value added products increasing its contribution to 50% in next few years.
- The management has guided volume growth for steel pipes and strips segment at 15%.
- EBITDA/tn to be maintained at 5400-5500 levels in FY25.
- Guidance for EBITDA/ton for Q1FY25 is projected to be in the range of 6000-6200. Long-term guidance for FY26 is anticipated to be around 6,500-7,000 levels post Cap-ex.
- Guidance for Lighting and Consumer Durables Segment at 20% volume growth with production expansion of around 3lac units.

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Net sales</b>	<b>55,544</b>	<b>77,308</b>	<b>79,960</b>	<b>78,085</b>	<b>87,997</b>	<b>99,300</b>
<i>Change (yoy, %)</i>	1.6	39	3	(2)	13	13
Operating expenses	(51,774)	(72,879)	(73,826)	(72,364)	(81,528)	(91,702)
<b>EBITDA</b>	<b>3,770</b>	<b>4,429</b>	<b>6,134</b>	<b>5,721</b>	<b>6,469</b>	<b>7,598</b>
Change (yoy, %)	6.6	17	39	(7)	13	17
<i>Margin (%)</i>	6.8	5.7	7.7	7.3	7.4	7.7
Depreciation	(1,027)	(1,084)	(1,154)	(1,173)	(1,273)	(1,378)
<b>EBIT</b>	<b>2,743</b>	<b>3,345</b>	<b>4,980</b>	<b>4,549</b>	<b>5,196</b>	<b>6,220</b>
Interest paid	(698)	(637)	(449)	(241)	(10)	(10)
Other income	47	58	54	138	138	138
<b>Pre-tax profit</b>	<b>2,091</b>	<b>2,767</b>	<b>4,585</b>	<b>4,446</b>	<b>5,323</b>	<b>6,347</b>
Tax	(526)	(717)	(1,237)	(1,157)	(1,342)	(1,600)
<i>Effective tax rate (%)</i>	25.2	25.9	27.0	26.0	25.2	25.2
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>1,565</b>	<b>2,049</b>	<b>3,348</b>	<b>3,289</b>	<b>3,982</b>	<b>4,748</b>
Exceptional items	-	-	-	-	-	-
<b>Adjusted net profit</b>	<b>1,565</b>	<b>2,049</b>	<b>3,348</b>	<b>3,289</b>	<b>3,982</b>	<b>4,748</b>
<i>Change (yoy, %)</i>	53.1	31	63	(2)	21	19
EPS	14.5	18.9	31.0	30.4	36.8	43.9
Dividend per sh	1.8	4.0	7.0	2.5	3.0	3.0
<i>Dividend Payout %</i>	12.2	21.1	22.6	8	8	7

**Balance Sheet**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
<b>Shareholders' funds</b>	13,652	15,476	18,636	21,635	25,292	29,715
Share capital	536	533	538	542	542	542
Reserves & surplus	13,116	14,943	18,098	21,092	24,750	29,173
<b>Total Debt</b>	<b>7,173</b>	<b>5,931</b>	<b>4,178</b>	<b>160</b>	<b>160</b>	<b>160</b>
Other liabilities	754	689	809	758	758	758
<b>Curr Liab &amp; prov</b>	<b>7,812</b>	<b>9,051</b>	<b>6,949</b>	<b>6,634</b>	<b>7,046</b>	<b>7,573</b>
Current liabilities	6,682	8,050	6,427	6,075	6,487	7,013
Provisions	1,130	1,001	523	559	559	559
<b>Total liabilities</b>	<b>15,739</b>	<b>15,671</b>	<b>11,936</b>	<b>7,553</b>	<b>7,964</b>	<b>8,491</b>
<b>Total equity &amp; liabilities</b>	<b>29,391</b>	<b>31,147</b>	<b>30,572</b>	<b>29,187</b>	<b>33,256</b>	<b>38,206</b>
	536	533	538	542	542	542
Net fixed assets	10,289	9,848	9,096	8,405	9,882	11,254
Investments	<b>138</b>	<b>110</b>	<b>114</b>	<b>151</b>	<b>151</b>	<b>151</b>
Other non-curr assets	618	513	488	714	714	714
<b>Current assets</b>	<b>18,346</b>	<b>20,676</b>	<b>20,874</b>	<b>19,917</b>	<b>22,509</b>	<b>26,087</b>
Inventories	8,682	9,876	11,523	10,865	12,295	14,147
Sundry Debtors	7,532	8,882	7,469	7,149	7,956	9,522
Cash and Bank	9	9	16	451	806	966
Other current assets	2,122	1,910	1,866	1,452	1,452	1,452
<b>Total assets</b>	<b>29,391</b>	<b>31,147</b>	<b>30,572</b>	<b>29,187</b>	<b>33,256</b>	<b>38,206</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	2,091	`	4,585	4,446	5,323	6,347
Depreciation	1,027	1,084	1,154	1,173	1,273	1,378
Tax paid	(499)	(788)	(1,136)	(1,272)	(1,342)	(1,600)
Chg in working capital	2,019	(1,304)	(2,337)	664	(1,826)	(2,891)
Other operating activities	(56)	(78)	(82)	(86)	(90)	(90)
<b>Cash flow from operations (a)</b>	<b>4,583</b>	<b>1,681</b>	<b>2,185</b>	<b>4,924</b>	<b>3,339</b>	<b>3,145</b>
Capital expenditure	(555)	(643)	(402)	(482)	(2,750)	(2,750)
Chg in investments	(99)	27	(3)	(37)	-	-
Other investing activities	-	-	-	-	-	-
<b>Cash flow from investing (b)</b>	<b>(654)</b>	<b>(616)</b>	<b>(405)</b>	<b>(519)</b>	<b>(2,750)</b>	<b>(2,750)</b>
Equity raised/(repaid)	(8)	(3)	5	4	-	-
Debt raised/(repaid)	(3,737)	(1,242)	(1,753)	(4,018)	-	-
Dividend (incl. tax)	(190)	(433)	(757)	(270)	(324)	(324)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	-	-	-	-	-
<b>Cash flow from financing (c)</b>	<b>(3,935)</b>	<b>(1,677)</b>	<b>(2,505)</b>	<b>(4,284)</b>	<b>(324)</b>	<b>(324)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(7)</b>	<b>(612)</b>	<b>(726)</b>	<b>121</b>	<b>264</b>	<b>70</b>



### Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	126.2	143	172	200	234	275
Adj EPS (Rs)	14.5	18.9	31.0	30.4	36.8	43.9
Adj EPS growth (%)	53.1	31	63	-2	21	19
EBITDA margin (%)	6.8	5.7	7.7	7.3	7.4	7.7
Pre-tax margin (%)	3.8	3.6	5.7	5.7	6.0	6.4
Net Debt/Equity (x)	0.5	0.4	0.2	0.0	0.0	0.0
ROCE (%)	12.0	15	22	20	21	20
ROE (%)	12.0	14	20	16	17	16

### DuPont Analysis

Asset turnover (x)	1.9	2.6	2.6	2.6	2.8	2.6
Leverage factor (x)	2.3	2.1	1.8	1.5	1.3	1.3
Net margin (%)	2.8	2.7	4.2	4.2	4.5	4.8

### Working Capital & Liquidity ratio

Inventory days	57	47	53	51	51	52
Receivable days	49	42	34	33	33	35
Payable days	34	30	20	19	18	18

### Valuations

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
PER (x)	39.9	30.5	18.7	19.0	15.7	13.2
Price/Book value (x)	4.6	4.0	3.4	2.9	2.5	2.1
EV/Net sales (x)	1.3	0.9	0.8	0.8	0.7	0.6
EV/EBITDA (x)	18.5	15.5	10.9	10.9	9.6	8.1
Dividend Yield (%)	0.3	0.7	1.2	0.4	0.5	0.5

Source: Company; IDBI Capital Research



Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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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**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 4069 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

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**Compliance Officer:** Pushkar Vartak; Email: compliance@idbicapital.com; Telephone: (91-22) 4069 1907

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