

Surya Roshni

BUY

Lighting margins weak; Steel pipes order book strong

Summary

Surya Roshni reported mixed set of results as its top-line was ahead of our estimate; however, EBITDA margin was slightly weaker than our forecast as Lighting & Consumer Durables EBITDA margin contracted 250 bps YoY to 8.2%. Nevertheless, Surya's Steel pipes segment EBITDA/t remained firm at Rs4,060 (+23% YoY). Also, its steel pipes order backlog continued to increase and stood at Rs10 bn which provides strong visibility on volume growth in coming quarters.

We have lowered our FY22 EBITDA margin estimate for Lighting & Consumer Durables division due to sharp rise in prices of key inputs. Overall our FY22 EBITDA/PAT estimates are revised downwards by 6%/9%. Nevertheless, we broadly maintain our FY23 profitability estimates and introduce FY24 forecast in this report. We roll over our valuation to FY24 forecasts and derive a SOTP-based target price of Rs810 (earlier Rs694).

Key Highlights and Investment Rationale

- Steel pipes order book continues to soar:** Despite prolonged rains, sluggish market conditions and high steel prices, steel pipes EBITDA/t remained over Rs4,000. Interestingly, Surya continued to maintain healthy pace of order book in exports and API coated pipes (high margin). The order book increased from R0.8 bn as on June 30, 2021 to Rs10 bn as on September 30, 2021.
- Cost inflation hits Lighting & Consumer Durables:** During Q2FY22, LED revenue grew by 15% YoY due to growth in value added products such as LED batteries and downlighters. The share of new age products also increased in the product mix. However, decline in conventional lighting; higher freight and inventory correction compressed its EBITDA margin- this was partially offset by price hikes by Surya.
- Outlook:** Strong order backlog in steel pipes division provides visibility on volume growth alongside firm margins. Also, Surya continues to gain market share in LED segment while improving its product mix in favor of smart lighting systems, monumental lighting, etc. We maintain our BUY rating on the stock.

TP	Rs810
CMP	Rs636
Potential upside / downside	27%
Previous Rating	BUY

V/s Consensus

EPS (Rs)	FY22E	FY23E	FY24E
IDBI Capital	40.1	63.0	76.3
Consensus	--	--	--
% difference	--	--	--

Shareholding Pattern (%)

Promoters	63.0
FII	1.6
DII	0.1
Public	35.3

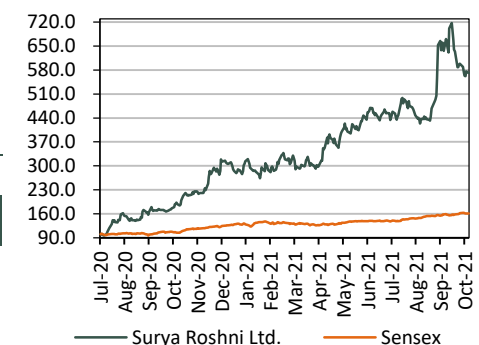
Price Performance (%)

	-1m	-3m	-12m
Absolute	(15.2)	19.2	201.0
Rel to Sensex	(17.1)	3.5	148.7

Key Stock Data

Bloomberg / Reuters	SYR IN / SURR.BO
Sector	Diversified
Shares o/s (mn)	54
Market cap. (Rs mn)	34,626
Market cap. (US\$ mn)	462
3-m daily average value (Rs mn)	19.0
52-week high / low	Rs868 / 208
Sensex / Nifty	61,143 / 18,211

Relative to Sensex (%)



Financial snapshot

Year	FY20	FY21	FY22E	FY23E	FY24E
Revenue	54,690	55,544	74,968	83,964	93,200
EBITDA	3,536	3,770	4,496	5,902	6,765
EBITDA (%)	6.5	6.8	6.0	7.0	7.3
Adj. PAT	1,022	1,565	2,182	3,430	4,153
EPS (Rs)	18.8	28.8	40.1	63.0	76.3
EPS Growth (%)	(15.4)	53.1	39.4	57.2	21.1
PE (x)	27.2	21.5	15.4	9.8	8.1
Dividend Yield (%)	0.4	0.6	0.8	1.1	1.5
EV/EBITDA (x)	10.8	10.8	8.8	6.2	4.9
RoE (%)	8.5	12.0	14.9	20.1	20.3
RoCE (%)	10.6	12.0	15.7	20.8	23.6

Source: Company, IDBI Capital Research

Exhibit 1: Quarterly Snapshot (Standalone)

(Rs mn)

Year-end: March	Q2FY22	Q1FY22	QoQ (%)	Q2FY21	YoY (%)
Net sales	19,456	14,534	33.9	13,738	41.6
Expenditure	18,447	13,613	35.5	12,746	44.7
EBITDA	1,009	921	9.5	992	1.7
<i>EBITDA margin (%)</i>	5.2	6.3	<i>(115)bps</i>	7.2	<i>(203)bps</i>
Interest	151	169	<i>(10.4)</i>	174	<i>(13.2)</i>
Depreciation	275	253	8.4	267	2.7
PBT	596	509	17.0	562	6.0
Tax	152	136	11.8	149	2.1
Net income	443	373	18.9	413	7.3
Diluted EPS (Rs)	8.1	6.9	18.9	7.6	7.3

Source: Company; IDBI Capital Research

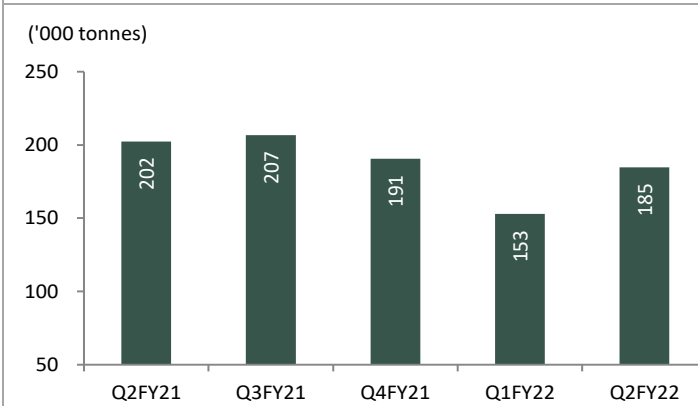
Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q2FY22E	Q2FY22A	Variance (%)
Net sales	18,077	19,456	7.6
EBTIDA	1,113	1,009	(9.3)
<i>Margin (%)</i>	6.2	5.2	<i>(97)bps</i>
Net profit	537	443	(17.4)
Adj. diluted EPS (Rs)	9.9	8.1	(17.4)

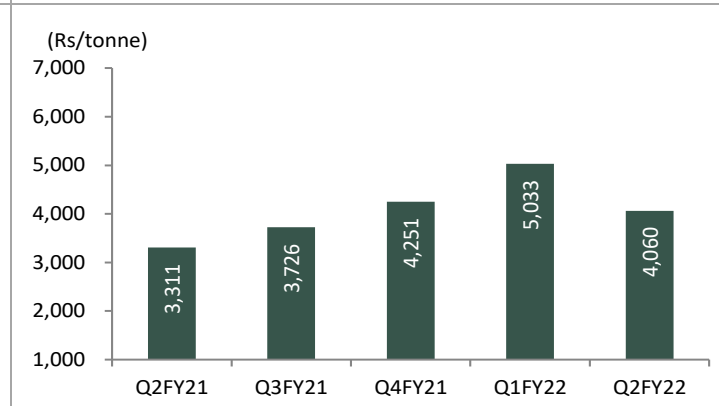
Source: Company; IDBI Capital Research

Exhibit 3: Steel pipes sales volume increased by 21% QoQ



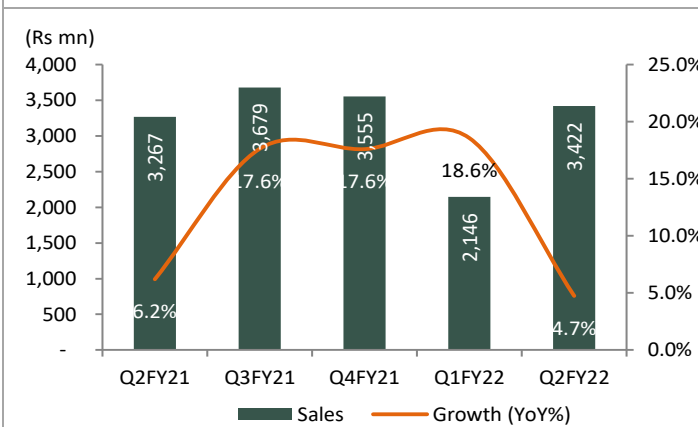
Source: Company; IDBI Capital Research

Exhibit 4: Steel pipes EBIDTA/t remains over Rs4,000



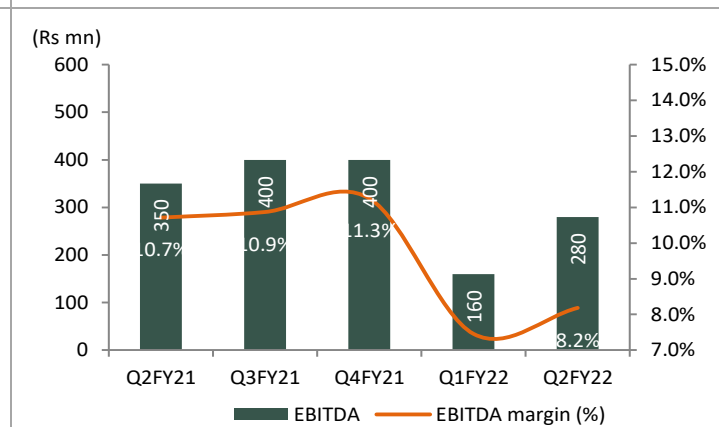
Source: Company; IDBI Capital Research

Exhibit 5: Lighting & Consumer Durables sales grew 4.7% YoY

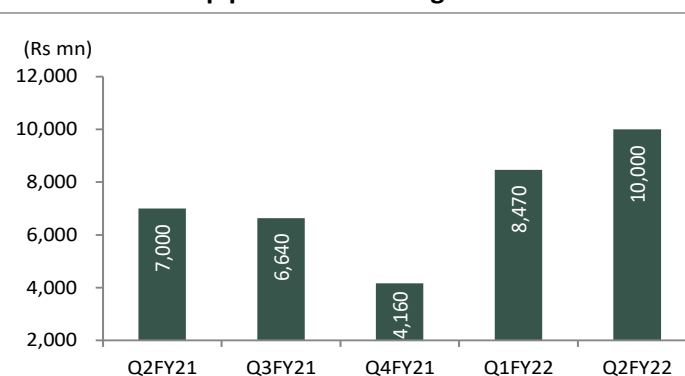


Source: Company; IDBI Capital Research

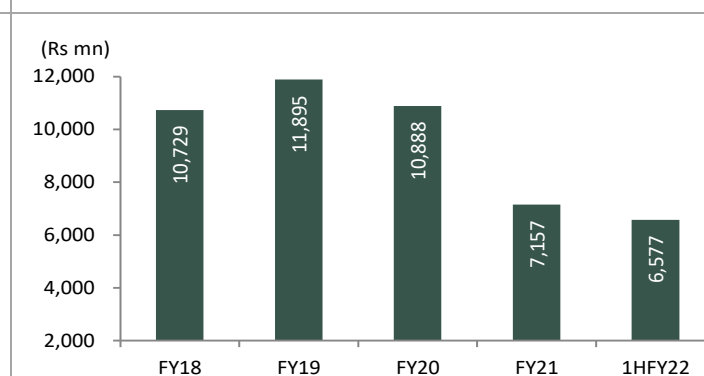
Exhibit 6: Lighting & Consumer Durables EBIDTA margin weakens on cost inflation



Source: Company; IDBI Capital Research

Exhibit 7: Steel pipes order backlog continues to rise

Source: Company; IDBI Capital Research

Exhibit 8: Net debt continues to fall

Source: Company; IDBI Capital Research

Exhibit 9: Change in estimates

	FY22E			FY23E			FY24E
	Old	New	(%) Chg	Old	New	(%) Chg	
Revenue (Rs mn)	70,131	74,968	6.9	78,547	83,964	6.9	93,200
EBITDA (Rs mn)	4,766	4,496	(5.7)	5,902	5,902	-	6,765
EBITDA margin (%)	6.8%	6.0%	-80bps	7.5%	7.0%	-48bps	7.3%
Net profit (Rs mn)	2,395	2,182	(8.9)	3,440	3,430	(0.3)	4,153
EPS (Rs)	44.0	40.1	(8.9)	63.2	63.0	(0.3)	76.3

Source: Company; IDBI Capital Research

Exhibit 10: Valuation (FY24 estimates)

Steel pipes EBITDA	4,770
Multiple assigned (x)	7.0
Derived value [A]	33,392
Lighting & Consumer Durables EBITDA	1,995
Multiple assigned (x)	5.0
Derived value [B]	9,976
Total EV [A+ B]	43,368
<i>less net debt</i>	-697
Derived market-cap	44,065
Value per share	810

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net sales	55,544	74,968	83,964	93,200
<i>Growth (%)</i>	1.6	35.0	12.0	11.0
Operating expenses	(51,774)	(70,472)	(78,062)	(86,434)
EBITDA	3,770	4,496	5,902	6,765
<i>Growth (%)</i>	6.6	19.3	31.3	14.6
Depreciation	(1,027)	(1,035)	(1,076)	(1,119)
EBIT	2,743	3,461	4,826	5,647
Interest paid	(698)	(579)	(289)	(145)
Other income	47	48	49	50
Pre-tax profit	2,091	2,930	4,585	5,552
Tax	(526)	(749)	(1,155)	(1,399)
<i>Effective tax rate (%)</i>	25.2	25.5	25.2	25.2
Minority interest	-	-	-	-
Net profit	1,565	2,182	3,430	4,153
Adjusted net profit	1,565	2,182	3,430	4,153
<i>Growth (%)</i>	53.1	39.4	57.2	21.1
<i>Shares o/s (mn)</i>	54	54	54	54

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Pre-tax profit	2,091	2,930	4,585	5,552
Depreciation	1,027	1,035	1,076	1,119
Tax paid	(499)	(749)	(1,155)	(1,399)
Chg in working capital	2,019	(143)	(116)	(85)
Other operating activities	(56)	(78)	(82)	(86)
Cash flow from operations (a)	4,583	2,996	4,307	5,100
Capital expenditure	(555)	(1,400)	(1,000)	(1,000)
Chg in investments	(99)	-	-	-
Other investing activities	-	-	-	-
Cash flow from investing (b)	(654)	(1,400)	(1,000)	(1,000)
Equity raised/(repaid)	(8)	-	-	-
Debt raised/(repaid)	(3,737)	(1,000)	(1,700)	(3,522)
Dividend (incl. tax)	(190)	(272)	(381)	(490)
Chg in minorities	-	-	-	-
Other financing activities	-	-	-	-
Cash flow from financing (c)	(3,935)	(1,272)	(2,081)	(4,012)
Net chg in cash (a+b+c)	(7)	324	1,227	88

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22E	FY23E	FY24E
Net fixed assets	10,289	10,388	10,579	10,460
Investments	138	39	138	138
Other non-curr assets	618	618	618	618
Current assets	18,346	19,558	21,718	22,786
Inventories	8,682	9,116	9,572	10,051
Sundry Debtors	7,532	7,909	8,304	8,720
Cash and Bank	9	333	1,559	1,648
Marketable Securities	-	-	-	-
Other current assets	2,122	2,200	2,282	2,368
Total assets	29,391	30,969	33,052	34,002
Shareholders' funds	13,652	15,562	18,610	22,273
Share capital	536	536	536	536
Reserves & surplus	13,116	15,025	18,074	21,737
Total Debt	7,173	6,173	4,473	951
Secured loans	7,173	6,173	4,473	951
Unsecured loans	-	-	-	-
Other liabilities	754	754	754	754
Curr Liab & prov	7,812	8,480	9,215	10,023
Current liabilities	6,682	7,350	8,085	8,894
Provisions	1,130	1,130	1,130	1,130
Total liabilities	15,739	15,407	14,442	11,728
Total equity & liabilities	29,391	30,969	33,052	34,002
Book Value (Rs)	251	286	342	409

Source: Company; IDBI Capital Research

Financial Ratios

Year-end: March	FY21	FY22E	FY23E	FY24E
Adj. EPS (Rs)	28.8	40.1	63.0	76.3
Adj. EPS growth (%)	53.1	39.4	57.2	21.1
EBITDA margin (%)	6.8	6.0	7.0	7.3
Pre-tax margin (%)	3.8	3.9	5.5	6.0
ROE (%)	12.0	14.9	20.1	20.3
ROCE (%)	12.0	15.7	20.8	23.6
Turnover & Leverage ratios (x)				
Asset turnover (x)	1.9	2.5	2.6	2.8
Leverage factor (x)	2.3	2.1	1.9	1.6
Net margin (%)	2.8	2.9	4.1	4.5
Net Debt/Equity (x)	0.5	0.4	0.2	-0.0
Working Capital & Liquidity ratio				
Inventory days	57	44	42	39
Receivable days	49	39	36	34
Payable days	34	27	27	27

Valuation

Year-end: March	FY21	FY22E	FY23E	FY24E
P/E (x)	21.5	15.4	9.8	8.1
Price / Book value (x)	2.5	2.2	1.8	1.5
PCE (x)	13.0	10.5	7.5	6.4
EV / Net sales (x)	0.7	0.5	0.4	0.4
EV / EBITDA (x)	10.8	8.8	6.2	4.9
Dividend Yield (%)	0.6	0.8	1.1	1.5



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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