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SURYA ROSHNI LIMITED

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SRL/22-23/83
January 25, 2023

The Secretary
The Stock Exchange, Mumbai
New Trading Ring, 14th Floor,
Rotunda Building, P.J.Towers,
Dalal Street, Fort,
MUMBAI - 400 001
Scrip Code: 500336

The Manager (Listing Department)
The National stock Exchange of India Ltd
Exchange Plaza, 5th floor
Plot No. C/1, G Block
Bandra Kurla Complex, Bandra (E)
Mumbai – 400 051
NSE Symbol: SURYAROSNI

Sub: Transcript of Earnings Call with respect to Financial Results for the third quarter and nine months ended 31st December, 2022

Dear Sir,

This is with reference to the Company intimation dated 13th January, 2023 filed with the stock exchanges in terms of Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 regarding the earning conference call to discuss the financial results for the third quarter and nine months ended 31st December, 2022 scheduled for Wednesday, 18th January, 2023.

Further to the audio recording filed with the stock exchanges already, we are enclosing the Transcript of the Earnings Call.

The same is also being uploaded on the website of the Company under Financials in the Investor section.

This is for your information and records.

Thanking you,

Yours faithfully
For Surya Roshni Limited

B B SINGAL
CFO & COMPANY SECRETARY

Enclosed: as above.

SURYA

“Surya Roshni Limited
Q3 FY '23 Earnings Conference Call”
January 18, 2023

Disclaimer: E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchange on 18th January 2023 will prevail.

SURYA



MANAGEMENT: MR. RAJU BISTA – MANAGING DIRECTOR

**MR. TARUN BALDUA – CHIEF EXECUTIVE OFFICER –
STEEL PIPES AND STRIPS DIVISION**

**MR. JITENDRA AGRAWAL– CHIEF EXECUTIVE OFFICER
LIGHTING AND CONSUMER DURABLES**

**MR. BHARAT BHUSHAN SINGAL–CHIEF FINANCIAL
OFFICER AND COMPANY SECRETARY**

SGA – INVESTOR RELATIONS ADVISOR

Moderator: Ladies and gentlemen, good day, and welcome to Surya Roshni Limited Q3 FY '23 Earnings Conference Call. This conference call may contain forward-looking statements about the company, which are based on the beliefs, opinions and expectations of the company as on date of this call.

These statements are not guarantees of future performance and involve risks and uncertainties that are difficult to predict. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing star then zero on your touchtone phone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Raju Bista, Managing Director at Surya Roshni Limited. Thank you, and over to you, sir.

Raju Bista: Yes. Good evening, everybody, and thank you, and wish you a very Happy New Year. On behalf of Surya Roshni Limited, I extend a very warm welcome to everyone for joining us today on this con call. We are joined by Mr. Tarun Baldua, CEO of Steel Pipes division and Strips Division; Mr. Jitendra Agrawal, CEO of Lighting and Consumer Durables; our CFO and Company Secretary, Mr. Bharat Bhushan Singal and SGA our Investor Relations Advisor.

I hope everyone had an opportunity, may be very limited time opportunity, but I hope so that you had gone through the financial result and investor presentation, which has been uploaded on the stock exchange and on our company website as well. The company posted a very strong set of number along with continued improvement on operation parameters across the product and business segment.

I will now discuss the some of the financial and operational highlights of each businesses, Lighting and Steel Pipes. For the quarter, EBITDA and PAT grew by 65% and 121%, respectively on a Y-o-Y basis. And for nine months FY '23, the revenue was Rs. 5,845 crores as compared to Rs.5,429 crores, a growth of about 8% Y-o-Y. EBITDA and PAT stood at Rs. 366 crores and Rs.180 crores as compared to Rs.294 crores and Rs.122 crores, respectively. The company reported a healthy improvement in gross margin due to stable input cost and improved product mix.

Coming to Lighting and Consumer Durables. Q3 and nine months FY '23 revenue grew by 6% and 20% year-on-year basis, driven by increased share of value-added products, along with a pickup in consumer demand during the first half of Q3 FY '23 owing to festival season. The company new age line of products such as LED Lighting continue to do well. Professional Lighting reported one of the best quarter in terms of revenue as well as project execution. In fact, LED Street Light revenue grew by 66% and 74%, respectively, in Q3 and nine months FY '23.

The company remained positive about consumer durables, considering a huge addressable domestic market. The company continue to penetrate the existing dealer network and Surya Roshni product lineup is now available in more stores across the country, even in the tier one city also. The gross margin has also improved due to operating leverage and premium product and stability in input costs. There is a scope to improve margins very drastically further also. And the capex under the PLI scheme is ongoing as per the schedule. This capex once operationalized is expected to lower the input costs as well as lower the external dependency.

The company is investing in reducing replacement costs and improving product quality. The replacement cost has further improved and it has come down to 5.15%, a significant reduction from 9.29% year-on-year basis. Over the past few quarters, the company continue to invest in advertising and marketing with engagement with the dealers and distribution during the quarter.

The company will continue to invest in R&D innovation to bring latest and stylish solution to the consumers. In order to further improve the efficiency and throughout our sales and marketing team, the company successfully implemented Salesforce technology in the last financial year, the company is now in process of implementing SAP and for ERP system to further improve overall efficiency, profitability and control systems.

Now moving on to the Steel Pipe and Strips Division, the company top line was affected due to continuous fall in global steel price due to quarter. But nonetheless, with a growing shares of value-added product, EBITDA per ton for Q3 FY stood at Rs.6,733 per ton, a robust growth of 76% year-on-year. Similarly, for nine months FY '23, EBITDA per ton is now at Rs.5,200 a growth of about 22% year-on-year.

So as mentioned during the previous earnings call, the company is well on track to achieve 10% volume growth, along with EBITDA per ton above last time, I think I have given a number of Rs.5,000, but hopefully, we'll be doing Rs.5,500 EBITDA per ton for the whole year. For Q3 FY '23, the volume growth stood at 9%, which was slightly below our expectation due to some sort of fall in steel price globally.

We are witnessing some stability in the steel price from the December end onwards. Should this stability continue, we can achieve further growth in terms of volume with a remarkable financial performance today only on the Board. So, the Board has announced an interim dividend of Rs. 3 per equity share on the paid-up equity capital to reward the company's shareholder, and this is the interim dividend. Which various initiatives such as cost rationalization, working capital optimization, premium product line, the company expect to create further value for our shareholders.

The company continue to maintain a healthy momentum in order inflow for value-added products such as API coated, API export pipe, overall exports, GI pipe and other value-added pipes. We reasonably estimate good growth in our top line as well as bottom line in coming quarter. Over the year, the company has diversified its manufacturing base across the country at a strategic location to reduce the turnaround time and logistic cost.

To further strengthen this value proposition, the company is setting up expansion at Hindupur with an outlay of Rs.75 crores. This expansion is mainly aimed towards backward integration, which will help the company to reduce the cost, the entire capex will be funded through internal accruals, and it is expected to be complete by March 2024.

This is from my side. And now I will like to request our CFO, Mr. B. B. Singalji to share his thoughts.

Bharat Bhushan Singal:

Thank you, respected MD, and a very good evening to all the participants on the call. The company reported a healthy set of numbers during Q3 as well as nine months out of this financial year. For the quarter, EBITDA and PAT grew by 65% and 121%, respectively, on a year-to-year basis. And PAT was Rs.164 crores against Rs.90 crores, respectively. Revenue remained flattish on account of global commodity correction. For nine months financial year '23, the revenue stood at Rs.5,845 crores compared to Rs.5,429 crores during nine months of the corresponding previous year, a growth of 8% year-on-year basis. EBITDA stood at Rs.366 crores and PAT stood at Rs.180 crores, a growth of 24% and 47% year-on-year, respectively.

In Lighting and Consumer Durables, for the quarter, the revenue stood at Rs.396 crores, a growth of 6% year-on-year basis. EBITDA, Rs.27 crores and PBT stood at Rs.19 crores, respectively. For nine months financial year '23, the revenue stood at Rs.1,114 crores, a growth of 20% year-on-year basis. EBITDA and PBT stood at Rs.80 crores and Rs.56 crores, a growth of 11% and 19%, respectively. The top line growth for the said period was mainly driven by value-added products.

In the Steel Pipes and Strips, during Q3 of this financial year, the company's EBITDA and PBT grew 92% and 194% to Rs.136 crores and Rs.104 crores, respectively. EBITDA per metric tons stood at Rs.6,733 compared to Rs.3,815, a robust growth of 76% year-on-year basis. For nine months of this financial year, revenue grew by 5% on a year-on-year basis, Rs.4,731 crores, while EBITDA and PBT grew by 29% and 59% year-on-year, respectively. EBITDA per metric ton stood at Rs.5,190 compared to Rs.4,257.

The company has reduced debt by Rs.71 crores in nine months of its current financial year and continues to remain long-term debt free. Finance cost has reduced by 28% in nine months of this financial year. Debt equity reduced to 0.3 as on 31st December '22 as compared to 0.48 as on 31st December of the previous corresponding year.

The company continued to maintain positive cash conversion cycles. The working capital days stood at 62 days during quarter 3 of this financial year. Working capital days for Lighting and Consumer Durables stood at 60 days in quarter 3 of this financial year compared to 66 days in Q2 of this financial year, while Steel Pipes and Strips working capital days stood at 62 days in quarter 3 of financial year '23 compared to 56 days in quarter 2 of financial year '23.

With this, I conclude the presentation, and we can now open the floor for further questions-and-answers.

- Moderator:** The first question is from the line of Manan Poladia from MKP Securities. Please go ahead.
- Manan Poladia:** Yes. Congratulations on a great set of numbers, sir, firstly. I have two questions, sir. One is on the DFT side of things. Is there more DFT capex in the pipeline for Surya Roshni?
- Raju Bista:** So what is your next question?
- Manan Poladia:** Second question is about the demerger, sir. I know that there were some talks going on like a year or 1.5 years ago. I just wanted to know if there are any updates on that side?
- Raju Bista:** So as far as DFT is concerned, we have already set up a direct forming technology in a Gwalior plant. As the requirement increases, so we have a plan for the other plants too. Mainly, our capacity is increasing in the south, our utilization is increasing. So, in the future, in routine, we will add 2-3 DFTs. But as and when it is required, we will do it. Generally, when it reaches 80%-85%, capex we do further investment.
- Manan Poladia:** Right. Sir, just a follow-up question on that. What is the additional EBITDA per ton that you get when you introduce DFT technology into a plant, if you could just give me a broad idea?
- Raju Bista:** The material that goes to the DFT plant, the normal line that you make and attach to the DFT plant, the cost difference is around Rs.250 to Rs.300 in the same product line. The DFT that we attached is of large dia size, so it gives a premium of around Rs.2,500-Rs.3,000 in the market. So, two things happened.
- Manan Poladia:** Why is DFT investment of Rs.25 crores?
- Raju Bista:** It depends. If you invest in small dia size mill, it is Rs. 25 crores. If you invest in big dia size mill, it is Rs.35-40 crores. So, it will depend on the size.
- Manan Poladia:** Right, sir, understood. And what about the demerger, sir?
- Raju Bista:** The premium of Rs.3,000 is very limited in the market because it is not used everywhere. So, there is not much volume in the market. In total, in India, around 25,000 to 30,000 tons of pipe will be sold. In normal times, it has an impact of Rs.250-Rs.300 because you do not have to change the size and so you save time. So, that is one part.

Another part is that as far as demerger is concerned, all shareholders have the same wish. You all know that once lighting used to be very good and there was a little pressure on steel. Today steel division is doing better than lighting. I am seeing it for the first time that our ROCE is better than steel division as compared to lighting. There is a little pressure on lighting from the last 2-3 years because the overall market size has not increased. And when the whole industry shifted from conventional to smart lighting, Because of the high life of the product, there have been many problems in it. No doubt about it. But still we are maintaining 20% growth in nine months in the lighting division. So this is it and we also acknowledge this in management that for the benefit of the shareholders, it is good if there is a demerger. But until the board approves all these things, at least in this con-call, the demerger cannot be decided.

- Manan Poladia:** So, I don't expect you to decide it, I just wanted to know if there was any update on that item.
- Raju Bista:** So, there was no such discussion in today's meeting regarding the necessary investment and financial position. Because we have Rs.500 crores of debt left. I had said that in the balance sheet of 2026, we will get debt-free. But today I am announcing that it will be 100% that when the balance sheet of FY'24 will be printed and go to you, the company will be debt-free. So, we are building according to that roadmap. So, we have not reached any decision on the result yet. If something happens, we will definitely inform you. But our entire focus is that the investor's interest on Surya Roshni is sustained, and our trust and relationship is maintained. It is one of our principles and we will maintain it.
- Manan Poladia:** I completely understand thank you so much for your answer sir
- Moderator:** The next question is from the line of Rikesh Parikh from Rockstud Capital LLP. Please go ahead.
- Rikesh Parikh:** Sir, thanks for an opportunity and congratulations on good set of numbers.
- Moderator:** Parikh, please use the handset mode, the audio is muffled?
- Rikesh Parikh:** Yes. Sir, thank you, and congratulations on a good set of number. First thing on the Pipes, I just wanted to understand what is our capacity utilization right now and what was the actual number you said? Because I think we have a capacity of 12.76. So, utilization level what was the utilization level in this quarter?
- Raju Bista:** So particularly each quarter if you see this quarter, it has been 72%.
- Rikesh Parikh:** Okay. And we are planning for a Rs.75 crores expansion at Hindupur. So what will be the capacity expansion? By what time frame we are expecting?
- Raju Bista:** It will have a capacity of 72,000 tons per annum. G.P line is a slightly different product segment where we have already introduced some products in the market, I request Mr Baldua ji to elaborate on it and explain it.
- Tarun Baldua:** Good evening Sir, Basically, this capacity of we have to introduce the CR line also as well as GP line. So some CR pipes also we produce, that capacity would be around 2,000 tons a month. And then GP, so that another value addition and 6,000 ton for GP. So it is almost 8,000 ton capacity. It is basically you can consider is a backward value addition because till now we were selling pipes in the market of GP and CR, but we are buying from the raw material suppliers. Now we will add it backward value addition and sell in the market.
- Raju Bista:** Basically, the galvanized H.R. coils were purchased, slit and sold as pipes. Now we will buy normal hot roll coils, we will galvanize it ourselves and sell it as pipes. In the coastal area, there is a market of 2.25 to 2.5 lakh tons per month. In which we are able to sell around 4,000 tons per month. If the availability is not there for six months, then we are not able to do anything. So, seeing all that, we have taken this 75 crores investment call. And as far as the payback is concerned, if you calculate in a normal routine, then five years will come. But if the season goes

well for 1-2 years, then your payback can be done in two years and it has a good demand in coastal belt on a regular basis.

Rikesh Parikh: Sir, when will this facility be on stream?

Tarun Baldua: We are considering day zero from the date of allotment of land from APIDC, we have applied for it and I think within a month we will get the allotment and 10 months thereafter.

Rikesh Parikh: So, on the higher side, we will be operational in a year?

Raju Bista: Yes.

Rikesh Parikh: And last thing on the export side, we have some 700 outflows of exports in hand. So in terms of number, how much quantity is this export order and till when do we have to complete this?

Raju Bista: See, export is our regular business and the order we have in hand is of 85,000 tons and the order is of Rs.800 crores-Rs.850 crores in hand. But we consider export as our regular routine business, trade business. Because in the whole country, we have a very good relationship with our distributors in 25 countries and we dispatch them to the customers. If I talk about product wise segment, we have five major segments in steel division. So our trade is bread and butter.

The contribution of domestic sales is around, if I tell you about nine months, it varies around 60%. But 55% contribution is of trade segment. The overall size of our export is 18%. And the actual user and the government, API pipe, I can't say government, it's basically through PSU, oil and gas pipeline that we supply to PSU. That is about 15%. And our business of cold rolling is around 11-12%.

So, in this way, we have different segments in steel division at around 18%. Last year it was 20%, but the overall export demand in Europe, Canada and America is not that healthy. But in spite of all, our overall export contributes around 18%. I think the price has stabilized a little. In the last 6-8 months, the outside HR coil was cheap and India was expensive. That was also a pressure, but now the equation is the same. I think the export will grow in the coming time.

Rikesh Parikh: Just a last question, if I can squeeze in. The EBITDA per ton has come to 6,700, so any benefit of price increase in steel prices can be a one-off. What should we see in the sustainable habitat going forward?

Raju Bista: In fact, the numbers of the quarter, the price which has increased, there is no impact of that. In fact, the price has fallen slightly in this quarter. That's why you will see that there is a growth in volume of 9%, but there is a minus 2% in revenue in steel division. In fact, the rate has fallen a little. As far as the EBITDA per ton is Rs.6,733 in this quarter, further I will say that Q4 has always been good. And looking at the orders we have in hand, we feel that we will be further better than this, we will cross 7,000. And I think, as I said last time, it will be above 5,000. But in the entire year, we will get a bit above Rs.5500 per ton. This is for sure, I feel.

Rikesh Parikh: Thank you, and all the best, if any other question I will come back in que.

Moderator: The next question is from the line of Jatin Damania from Kotak Securities.

Jatin Damania: Sir, we just wanted to check because in your opening commentary, you said that steel pipe business volume was lower because of a fall in the steel prices, and we had guided for 4.5 lakh tons of the volume in the second half. So do you think that this volume is sustainable or we'll be able to achieve that 2.4 million, 2.5 million in the last quarter? And what is the order book in the pipe business?

- Raju Bista:** Sir, there are two things. Our volume has increased by 9% in the quarter and in the ninth month, the overall volume has increased by 5%. In the ninth month, the overall steel revenue has increased by 5% and in the quarter, the revenue has decreased by 2%. Volume growth be good in Q4. We are assuming that the entire year should have around 7%-8% volume growth. What was your second question?
- Jatin Damania:** Sir, 7-8% means can we do 2.5 lakhs?
- Raju Bista:** Yes, we will do it.
- Jatin Damania:** Second, lighting business, we have done a 6.8% margin, but what are the steps that we are taking to improve the lighting business margin?
- Raju Bista:** See, what you have asked, I would like to explain a little bit about lighting. Because it is a business that uses a little bit of science. See, the thing is that overall lighting, as I told you, in the market, in the last 4-5 years, the expectation of growth has not been met. The biggest reason for that is that the product life cycle is more in the LED. And the quality is also good in comparison to CFL. This is clearly visible from the market. And you will see that we have grown 20% in volume in the last 9 months. We expect a volume growth of 18% in the year.
- In Q3, there was a bit of pressure, but in volume, there was a 6% growth. But in the year, we expect a growth of 18%. As far as the EBITDA is concerned, we are almost at the same level. Mainly in the lighting division, there is a big impact of two things. One is natural gas. We use furnace for making glass and the natural gas prices have increased by 60% and the impact of this 60% is Rs.24 crores in a year.
- Last year we had done furnace rebuilding and due to that efficiency improved and we have been able to save the previously increased input cost of 30%. But even today, it has an impact of Rs.12 crores. This is a big reason. Second, because there is still conventional sale, so when it is conventional, the margins are a little thin. That is a reason. As we move towards the product segment and premium product, this improvement will be seen. In Q4, the EBITDA margin will be more than 10%. And the overall year last year was 8% it will be in the plus side it will not be less this is what I can tell you now.
- Jatin Damania:** Sir, this guidance is good because we are going from 7% to 10% means somewhere we should see the profitability of LED in the form of Q4.
- Raju Bista:** We have done significant work and our new CEO has also given a lot of input in this and we have added premium product and premium segment in our market distribution segment. Overall, we have increased the POP and publicity in the 1 lakh counters. We have increased penetration there. So you will see the impact of that from Q4.
- Jatin Damania:** Sir, if I manage in sustainability, then approximately we should get at least Rs.140 to Rs.150 crores from the sustainable EBITDA lighting business.
- Raju Bista:** Yes, in the Rs.1,500 crores volume, Rs.150 crores EBITDA should be minimum. In fact, I will tell you, the EBITDA percentage of the lighting division should be 14-15%. We are working in that direction. And when we were at the peak of CFL, we were working on 40% EBITDA margin. But due to the increase in competition and the increase in the unorganized sector, and due to China's up-down, this situation has happened not only with us, but with the entire industry. In fact, we have come from 10% to 8%, but people have come down from 20% to 14%, 14% to 10%. But we believe that the lighting division segment should have a minimum EBITDA margin of 14-15%.
- Jatin Damania:** Right, sir. To reach the 14%-15% target, the factors you mentioned will definitely improve. But how much time will it take for us to reach that 14-15%?

Raju Bista:

I can't tell you the exact date or month of the time. But we are improving in that direction. There are 2-3 things. Mainly, in our case, there is a big gap between our trade and other professional luminaires. The luminaries segment is a premium segment, high value and high volume. As I said last time, the industry has a 50-50 ratio. In our case, it is 75-25. That is a big reason. We are focusing on this in the luminaire business and it is already around 20% business, meaning the overall turnover. And in comparison to trade, we have come down to 70-30 ratio. So that is one area. Second, we will have to include premium products in this. Third, you must be seeing overall visibility.

When I talk about competition, I will not mention anyone's name, but in Tier 1 city, you will see the visibility of other competitors is much more than ours. So, Tier 1 city, because our visibility in Tier 2 is good, we are still behind in Tier 1. To improve that very quickly, we have appointed a long arm salesman. And that work is going on.

I think if there is proper execution for a year or 15 months, then 12-14% is not a big deal. And one thing, since the COVID happened, the input cost has been volatile. The price of metals is always going up and down, sometimes it is cheap and then it goes up in two months. So we need some stability in import too. I think in the coming time, there will be some improvement in that too. So let's hope. I fully agree that this big 1500 crores, that too in the lighting business, there is so much volume and value. So there should be 14-15% EBITDA margin.

Jatin Damania:

Sir, last question on lighting before I move to pipe again. Sir, your lighting business, what is the current order book as of now or at a peak capacity, how much revenue we can generate from a lighting business?

Raju Bista:

See, what is there in this is that this is our regular business. Like for professional luminaire, 25-30 crores, means there is a booking order of one month in hand. Otherwise, people, like steel pipe, order of 500 crores is not received here. So order of 5 crores is also a big thing in lighting. So order of 25-30 crores is with us anytime for any project in hand. Otherwise every month this billing is done and material is dispatched from plant. So this is it.

As far as lighting is concerned, we have this that the volume we are working on now, and there should be double volume from here in 4-5 years and as far as profitability is concerned, if the top line is Rs.2,800 crores – Rs.3,000 crores then the lighting division should have an EBITDA of around Rs.400 crores. That is our target and we are trying in that direction. But there are many obstacles in between and then it slows us down a little. But the effort is on.

Jatin Damania:

Thank you. Thank you on the lighting business. On the piping business, definitely 1.2 million tons has its own capacity of 12 lakhs. Operating at 70% and we believe that we are more into an oil and gas and that's why we are getting a better EBITDA per ton. But is this 6,700 or 7,000 if we do next quarter to get our average rate of 5,500 for the full year, is this number of 7,000, 7,200 sustainable from a longer period point of time? Or if steel prices correct, we will see a sustainable number of around 5,500 or 5,000.

Raju Bista:

See, I can not make forward looking statement. But I can say that in the regular routine business, our average was around 4,000-4,200. The change that has come in our product segment, so because of that our sustainable number will be 5,000 minimum per ton. But above that it depends on whether API is exceptionally good. I will talk about one segment, we were doing domestic API, this year we have exported 20,000 tons of API. That is an area in which we are improving very quickly. So, we are exporting API, we get good premium in that too.

We have galvanized pipe, which we sell domestically. We are doing about 5-7% of premium product every month. So we are changing this product mix and our aim is that these 5,000-6,000 should increase in that direction. Obviously, our wish is that these 7,000-8,000 should come. But in steel division, prediction becomes very tough because you don't have much in your hands. When you have 80-85% cost as raw material cost, so you have very limited scope for value addition. But we will try to improve the numbers in the coming time

- Jatin Damania:** Sir, last question, I missed the earlier commentary. We have two different verticals like B2C and B2B. So, and definitely we will be a debt free by end of this financial year. So any plan to have the management or board have thought about in terms of demerging both the units separately? Anything on that front?
- Raju Bista:** I agree with you and I also have the same opinion that both of you are doing well in the standalone business. So, value creation can be done with this. And as I said last time, whenever I talk to you, I always inform the board. I will inform you in the next board meeting
- Moderator:** The next question is from the line of Vivek Gautam from G.S. Investments.
- Vivek Gautam:** Congratulations on a good set of numbers. I just wanted to understand, because I have recently started tracking the company, the reason behind the improvement in ROCE to such a good extent and isn't it a commodity business no longer and can such high ROCE numbers be sustained?
- Tarun Baldua:** Sir, this is no more a commodity business that is very clear because as Mr. MD already told that we are increasing our value added products quarter-on-quarter. Therefore we are getting good realization and the IRR and other things is definitely we will try to maintain it because our loans have also paid long term loans. So definitely the interest liability is also low and the profitability is higher. Certainly our rate of return will be.
- Raju Bista:** It is like two years ago 11-12% ROC was there and now it has come to 24%. And at this level, ROE is at 22% level. So every year, profitability is increasing and efficiency is improving. So this trend will definitely increase. And our capex is not very high. You have seen that after many years we are investing Rs.75 crores. So I think these numbers will keep improving in the coming time.
- Vivek Gautam:** Sir, the reason for the decline in ROC is the DFT. We have made a new investment in technology, pipes, some of our companies, who have competed with us from the beginning, and the market gave them a very good return. We are also trying to go in that way. And how can it sustain further?
- Raju Bista:** As I told you, overall our product mix has changed. Earlier, our focus was only on domestic trade. Today, our focus is on premium products. And because of all of them, it has grown. And we are in business, so we have only one thing to say, sell a good quality product and earn more and more. So the numbers will automatically improve.
- Moderator:** The next question is from the line of Saket Kapoor from Kapoor & Company. Please go ahead.
- Saket Kapoor:** Sir, you have just given us a guidance that for the fourth quarter also, for the steel pipe division, we are likely to post higher EBITDA and our average for the year is going to be Rs.5,500. Is this correct?
- Raju Bista:** I am not saying anything wrong, everything is correct
- Saket Kapoor:** Yes sir, I was just revising one figure. So overall sir, we have given EBITDA of Rs.286 crores in nine months. So taking that into account, can we calculate the full year EBITDA as Rs.440-450 crores on the Steel Pipe division?
- Raju Bista:** No, no, absolutely. And we will add Lighting and cross Rs.500 crores. This will happen for the first time.
- Saket Kapoor:** No, I was telling about Steel Pipe, we have done Rs.286 in nine months. So overall increased number Rs.450 crores full year we can consider?
- Raju Bista:** Number will be like Rs.420 crores, Rs.430 crores nearby for full year for steel division.

- Saket Kapoor:** In this, you mentioned lighting's 7% EBITDA, so the 10% which is expected is for quarter four or full year, please tell us one more time?
- Raju Bista:** Fourth quarter 10%, full year expected is around 8% .
- Saket Kapoor:** It will be like 7% to 8% for full year?
- Raju Bista:** Yes, for full year.
- Saket Kapoor:** And that will happen in Q4 because it is 10% after averaging out it will become 8%.
- Raju Bista:** Yes, definitely. But next year, it will start with a double digit. A lot of work has been done in the Lighting division, but now its numbers will be reflected in the balance sheet
- Saket Kapoor:** Sir, you have mentioned a lot about Professional Lighting and said that this is becoming our expertise. Sir, tell us about this, what kind of visibility is there in this and going ahead, what kind of business can we do in this?
- Raju Bista:** When we trade, the contribution of the trade should be equal to the contribution of the domestic luminaire business. 25%-20% of the trade is done by our professional luminaire. The industry ratio is equal. The market size of Rs.21,000 crores is in the Pure Lighting Division of India. So, Rs.8,500 crores, Rs.9,000 crores professional luminaire is sold. High value is there and less stress and because of it being a very customized product, tailored made product, R&D support and you have a good team, you will get good premium. Because it covers big segment, from industry to commercial lighting and streetlight, flood light, outdoor, indoor many things.
- And nowadays those who work of Rs. 1,10,000 crores in Gati Shakti and infrastructure development will requires poll, streetlight. I believe that this is an area where we did not have much trust. It has been there for 4-5 years, but it takes time to grow the business. We need a lot of approvals, a lot of development work, and there is a big role for R&D. So, development is important. You need good engineers for business development.
- And with our presence in PAN India, we have almost 50% of our presence in India. So, we are working in that area. And I think in the coming time that will be a very good contribution of yours. So, we see equally that trade will be one segment, professional luminaire will be another segment. The remaining segment is of Rs.2,500 crores and Rs.500 crores, Rs.600 crores is of consumer durable, which includes fans and duct lines. We are working towards a segment of Rs.3,000 to Rs.3,200 crores for lighting division.
- Saket Kapoor:** How long does it take to become a top line of Rs.3,000 crores in Lighting Division?
- Raju Bista:** Four to Five years. It will depend on our new CEO on how much speed he will take. But in the next four to five years, it will reflect in the numbers from next year.
- Saket Kapoor:** Sir, if we come to Steel Pipes once again, as we saw in the Steel Pipe segment, last year, due to the raw material price and steel price correction, we had to bear a lot of inventory losses. And this year, due to the steel price being stable to slightly upward direction, it is not impacting. Plus, you told us that our we have seen a lot of customization in steel pipe segments. We have developed a hedging mechanism in which we lock the steel prices. As per order booking, if there is a problem in steel prices again, how will we insulate ourselves?
- Raju Bista:** I want to say clearly that we are manufacturers and our behavior has to be like a manufacturer. If we go in trader concept, then the business is not yours, you will become the trading business expert. I also give advice to my team and in our case, I will tell you one nice thing, while increase and decrease it does not impact us. Obviously, it impacts us but very marginal. Only 25% impact compared to every other pipe business, because our business widely – we cover a lot of segments.

And steel pipe is like this. Till the time you are saying that the price has gone down, and you are saying it has gone up. So it goes up and down in two months. So it is very difficult to predict. So we basically assume that the order in hand for the next two to three months or the market situation, according to that we take as many calls as needed.

We do not believe in the idea that the price will increase by booking material and we will earn. We follow the same concept in dollar for hedging and do not see everyday movements in dollar exchange rate. We simply say that the day the order comes, book it. The premium that you get from the 6th to 9th month is added to your balance sheet. The day we book the import, we pay interest payable. So we spend a lot of energy in operation by removing all this from our mind. So that adverse impact will never come to our business.

- Moderator:** The next question is from the line of Riya from Aequitas Investments. Please go ahead.
- Riya:** It's encouraging to know that our EBITDA per ton is increasing on a quarter-on-quarter basis. My first question would be in terms of that where are we seeing the demand from and what kind of prospects are there for the next couple of months and years. So short-term, mid-term and long-term.
- Raju Bista:** So you are asking about steel division?
- Riya:** Yes
- Raju Bista:** So, Steel division, overall demand, that's 10%, 11% on a regular basis. There is a growth in oil and gas demand. And the demand is good. And almost 55% of the Har ghar jal have already had coverage. So it reflects well there too. The scarcity of water day by day, water is becoming like the future oil. So there is water pipe order too. Oil and gas, and it is reflected in the growth in exports. In domestic, all these things are visible under the Har ghar jal mission.
- And there is an area where you must be seeing, in India, there used to be cylinders for gas stoves. I recently went to Tripura on a visit, and I was surprised to see that in a border area, natural gas supply is being provided through pipelines. So, looking at all this, it seems that for the next 8-10 years, infrastructure, there should be good growth on a regular basis in India.
- And our Prime Minister is saying this is nectar time and next 25 years of India will be golden times and we can see it. So order is there from everywhere and we are equipped with that. And on regular basis where there is bottleneck, we do debottlenecking will increase our capacity and increase in our line speed we are doing it on regular basis.
- Riya:** Margin improvement is being seen at 7,000 tons. Where is this coming from? Is it coming from GI or API? What is the mix of both?
- Raju Bista:** It is API and galvanized pipe and export. As I told you, trade has 55% of it and 50% of it is galvanized and value added products. Export overall 90% is going of galvanized pipe. API has a very limited player in the oil and gas industry. It needs a very high technology and a high skill. You need a lot of approvals and a lot of PTR. Then you can make API pipe. We have been doing this business for 30-40 years. So, we get premium from all these segments and we don't believe in the idea of only selling for tonnage in the ones where competition is high.
- Because we have seen that in steel pipe, there is something to sell. If we have to sell cost to cost, we can double volume. But in that, working capital is also required, energy is also required, steel is consumed, and to also take losses. So, we keep ourselves away from that business.
- Moderator:** We'll take the next question from the line of Reshab Sisodiya from Sameeksha Capital. Reshab Sisodiya, your line is in talk mode. Please go ahead with your question.

- Reshab Sisodiya:** Sir, I have two questions on the lighting side that you mentioned that you are focusing more on the government business. So how is the cash cycle on the lighting business?
- Raju Bista:** Kindly repeat.
- Reshab Sisodiya:** Sir, I am asking that your cash cycle, working capital cycle, how is that for your lighting business? How does your cash cycle vary?
- Raju Bista:** It has been a drastic improvement. Overall, our net working capital is 60 days. Originally, if you look at our old balance sheet, it was around 100 days. It is now 60 days. We have come to 60 days in this quarter as well. We have come to 68 days from the inventory level of 79 days. Debtor has come from 62 days to 60 days. So, there is improvement in this and our working capital cycle is of two months.
- Reshab Sisodiya:** How much can be the utilization of our average and peak capacity in pipes? If I see the whole year, will my utilization peak at 70 or 80?
- Raju Bista:** 80-85. We have a scope. It depends on the size of the pipe order. That has a huge role to play. If I keep making half inch pipe, your capacity will also peak in half inch. If I make 16 inch pipe there, then your tonnage can be very good. So, it depends on the thickness.
- Moderator:** We'll take the next question from the line of Anuj Jain from Globe Capital. Please go ahead.
- Anuj Jain:** Just wanted to know, the new launches that you have mentioned on the lighting side, how is the response and further planning to launch some other new products, apart from the traditional products? And what is the marketing budget that you are allocating towards electrical segment?
- Raju Bista:** I will speak in detail later. Our CEO is also present. He hasn't spoken yet. He will explain it to you. Our marketing budget was Rs.15 crores, Rs.16 crores. We have doubled it to 30 crores from this year. In the fourth quarter, we have done a good job in this. We want to improve visibility in Tier 1 cities in big cities where our visibility is low. That is one.
- Number two, because our counters, as I have told you many times, we have 2 lakh shops, so 80-90% of them are electrical counters. So, the products we give, generally, acceptance level, generally, it happens, the placement happens properly. But the thing is, there is a lot of R&D role in this, there is a lot of competition, and it takes a little time for that.
- And then we do it on a trial basis first, then we operate in some branches and then we do it at the national level. So that is there, but the acceptance level is good, that is why I am saying that where only bulbs and tube lights were sold earlier, today we are providing a complete solution and in that direction, our working is going on a regular basis. So you want to add something?
- Jitendra Agrawal:** Thank you sir. Good evening. We have multiple segments in lighting. Every segment has new products every month. As you have heard earlier we are focusing on premium mix. For example downlighter, panels, many products are coming in that BEE from 1st of January. We have also started a mandatory regime for ceiling fans. We have done a lot of work for that.
- All ceiling fans will be marked with star markings. We are ready to work on that. We are also launching a rice cooker. We are adding products in appliances every two months. In professional lighting, sports lighting. We are working on new products there too. So, there are multiple segments, so definitely we are working on products.
- Anuj Jain:** Sir, just one more thing. I understood one thing on the steel side. The input prices, the price up side or down side, whatever it is, how much is the lag in its pass-on? I mean, how much is the time gap when the market actually passes on?

- Tarun Baldua:** Actually, normally in India, pricing is decided on a monthly basis. So, if I have taken a project order today, then naturally in the next month, the raw material price will get booked. And some orders we are booking at the time of taking up the orders also as per the project. So, we talk and fix project price and pricing. So hedging is also done. So maximum is a month.
- Raju Bista:** So, take one last question. I thought lot of questions has already come.
- Moderator:** We'll take the next question from the line of Tushar Sarda from Athena Investments.
- Tushar Sarda:** Yes. You are one of the largest players in this industry, probably number two. But the growth and market cap of the small companies is increasing very fast. So, your valuation seems to be very low. How will you address this?
- Raju Bista:** No one can get such a big opportunity for you. You think there is no operation, the market capitalization is huge. And where you think it is in such a healthy proportion, it is managing such a good operation efficiently, but market capitalization is only Rs.3,200 crores. So, I have to say this much on this matter. I believe that our first priority as a management, as an MD, as a CEO is that we maintain the operations in a very healthy proportionate way. That is our job, we get paid for that, and we are doing that. And market capitalisation is a bit of a game of perception these days.
- So according to that, our first threshold is that if the business is good, then you get the market capitalization sooner or later. And if all the shareholders are connected like you, then obviously it should happen. I can only say that when I was MD in 2012, we had a loan of Rs.1,500 crores. Today, there is only Rs.500 crores left.
- There was a turnover of Rs.2,650 crores. You can see the balance sheet. It is increasing to Rs.8500crores. The EBITDA was of Rs.50 crores. It is now crossing Rs.500 crores. The ROCE of 10% was there. Now we are inching towards 24.5%. There used to be one plant. Today, we have four, five plants and PAN India presence.
- And regarding quality, our service, our after-sales service and the trust of Surya Roshni is not comparable to anyone. Comparison is almost negligible, in the steel pipe divisions. And we get the premium in many places because we do what we say. And I think this is our USP. So our focus is on business and you keep your focus on market capitalization.
- Tushar Sarda:** My second question was about lighting business. It is around Rs.1,200 crores last year. In that, there is a CFL business of Rs.200 crores, Rs.250 crores which is zero profit. And you have given a guidance that it will be Rs.3,000 crores. So, by the time it is Rs.3,000 crores in three, four years, the CFL business will be zero, right?
- Raju Bista:** I have a little bit of misunderstanding in this. CFL business is already zero. This Rs.200 crores and Rs.250 crores is conventional. You are right, it is conventional, it does not have CFL. But the rest is product and whatever it is, we have taken such a target. Beyond that, we will not touch the conventional product till December 2025, because by then all the poor people in India would have been completely served, because today there are many crores of people in BPL families are also becoming millionaires, so I think beyond 2025 December India may not need conventional products and a lot of work is going on in that direction. The government is also doing it so it is and your question is absolutely correct that till then its sale will be zero. And the cannibalization is happening automatically.
- Moderator:** Thank you. Ladies and gentlemen due to time constraints we will take that as the last question. I now hand the conference over to Mr. Bharat Bhushan Singal, CFO for closing comments. Over to you, sir.

Bharat Bhushan Singal: Thank you, everyone, for joining us today on this earnings call. We appreciate your interest in Surya Roshni Limited. I sincerely, once again, thank to our MD and the CEOs for sparing their valuable time and addressing queries raised by participants who attended the call. For any further queries, if any, contact SGA, our investor relations advisor. Thank you.

Raju Bista: Thank you very much.

Moderator: Thank you. Ladies and gentlemen, on behalf of Surya Roshni Limited, that concludes this conference call. Thank you for joining us and you may now disconnect your lines.