



EQUIGRADE - Analytical Power for Investment Decisions

Surya Roshni Limited
Iron & Steel and Lighting Products

CARE Ratings
Professional Risk Opinion

October 23, 2013

Press Release

CARE EQUIGRADE Grid (CEG)

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Fundamentals					
Valuation					

CEG is explained on the page 2

- CARE Equity Research assigns Fundamental Grade on a scale of Grade 5 to Grade 1, with Grade 5 indicating 'Strong Fundamentals' and Grade 1 indicating 'Weak Fundamentals'.
- CARE Equity Research assigns Valuation Grade on a scale of Grade 5 to Grade 1, with Grade 5 indicating 'Considerable Upside Potential' and Grade 1 indicating 'Considerable Downside Potential'.

CARE Equity Research assigns a Fundamental Grade of 3 [Three] for the equity shares of SRL, indicating 'Good Fundamentals'.

The grading draws strength from 1) diversified revenue profile of the company (76% from steel division; remaining from 24% from lighting division), 2) over 4 decades of track record of the promoters in the business, 3) good brand recall for the company's two key brands 'Surya' & 'Prakash Surya', & 4) complete backward integration for the lighting division.

The grade also factors in the market position of the company and its wide reach with over 200,000 retailers. The grade is however constrained by 1) low amount of value addition in steel pipes, which is also reflected in lower profit margins for the steel business & 2) high levels of competition in both the steel and lighting divisions.

On the back of increase in the demand for steel pipes arising from oil and gas, infrastructure, water supply and sanitation projects coupled with expected increase in the penetration of electricity in the country and development of infrastructure both in the private and public sector, which will boost the lighting division sales, SRL's revenue is expected to grow at a CAGR of around 10.8% during FY13 to FY15.

CARE Equity Research assigns a Valuation Grade of 4 [Four] for the equity shares of SRL, indicating 'Moderate Upside Potential'.

CARE Equity Research values equity shares of SRL at Rs.95 per share. The valuation has been arrived at using the discounted cash flow valuation methodology based on five year consolidated financial estimates. The CIV of Rs.95 per share is around 24% above the Current Market Price (CMP) of Rs.76.8 per share; hence we assign a valuation grade of '4/5' to the equity shares of SRL, indicating that equity shares of SRL have 'Moderate Upside Potential'.

About the Company

Surya Roshni Limited (SRL), incorporated in 1973 is into the business of manufacturing electric resistance welded (ERW) steel pipes & lighting products, with facilities at Bahadurgarh (Haryana), Kashipur (Uttarakhand) and Malanpur (Madhya Pradesh). Products in steel division include ERW pipes, cold rolled (CR) sheets, whereas lighting division includes compact fluorescent lights (CFLs), fluorescent tubular lights (FTLs), general lighting system (GLS) & luminaries (lights for industrial and commercial applications). The company holds 53.37% stake in Surya Global Steel Tubes Ltd. (SGL), incorporated in 2009, a company into manufacturing of ERW and spiral pipes at Bhuj (Gujarat). Under its steel division SRL (including SGL) currently has a manufacturing capacity of around 5,82,000 Metric Tonnes Per Annum (MPA) of ERW pipes, 2,00,000 MPA of spiral pipes and 1,15,000 MPA of CR sheets. Under the lighting division SRL currently has a manufacturing capacity of 66 Million Per Annum (MPA) of CFLs, 187 MPA of GLS and 63MPA of FTL.

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FUNDAMENTAL GRADE

CARE Equity Research's Fundamental Grade is an opinion on the fundamental soundness of the company vis-à-vis other listed companies in India. The grade is assigned on a five-point scale as under:

CARE Fundamental Grade	Evaluation
5/5	Strong Fundamentals
4/5	Very Good Fundamentals
3/5	Good Fundamentals
2/5	Modest Fundamentals
1/5	Weak Fundamentals

VALUATION GRADE

This grade represents the potential value in the company's equity share for the investor over a 1-year period. The grade is assigned on a five-point scale as under:

CARE Valuation Grade	Evaluation
5/5	Considerable Upside Potential (>25% upside from CMP)
4/5	Moderate Upside Potential (10-25% upside from CMP)
3/5	Fairly Priced (+/- 10% from CMP)
2/5	Moderate Downside Potential (10-25% downside from CMP)
1/5	Considerable Downside Potential (>25% downside from CMP)

Grading determination is a matter of experienced and holistic judgment, based on relevant quantitative and qualitative factors of the company in relation to other listed companies.

Disclosures

- ☐ Each member of the team involved in the preparation of this grading report, hereby affirms that there exists no conflict of interest that can bias the grading recommendation of the company.
- ☐ This report has been sponsored by the company.

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CARE's valuation of the security is mainly based on company specific fundamental factors. Equity prices are affected by both fundamental factors as well as market factors such as – liquidity, sentiment, broad market direction etc. The impact of market factors can distort the price of the security thereby deviating from the intrinsic value for extended period of time. This report should not be construed as recommendation to buy, sell or hold a security or any advice or any solicitation, whatsoever. It is also not a comment on the suitability of the investment to the reader. The subscriber / user assumes the entire risk of any use made of this report or data herein. CARE specifically states that it or any of its divisions or employees have no financial liabilities whatsoever to the subscribers / users of this report. This report is for personal information only of the authorised recipient in India only. This report or part of it should not be reproduced or redistributed or communicated directly or indirectly in any form to any other person, especially outside India or published or copied for any purpose.

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