

Surya Roshni

HOLD

Continued Underperformance

Summary

Surya Roshni's Q2FY25 performance was below our expectations. Revenue declined by 20.2% YoY to Rs15.3bn, primarily due to weak performance in Steel pipes segment, while Lighting and consumer durable (LCD) segment posted decent growth (up 5% YoY). Steel pipes segment's EBITDA/t fell by 43% YoY to Rs2,901, driven by an inventory loss of Rs3,000/t. However, management aims to sustain EBITDA/t of Rs5,000-5,200 for FY25 and targets Rs5,200-5,500 for FY26. Surya commenced operations at the Bahadurgarh facility in Jul'24 and expects spiral pipes plant at Gwalior to start by Dec'24. Additionally, Anjar facility for large diameter pipe and Hindupur facility are expected to start within next 12 months. We cut FY25E EBITDA estimate by 14% to arrive at a target price of Rs603 (earlier Rs604) based on SOTP method. We maintain our HOLD rating on the stock.

Key Highlights and Investment Rationale

- Falling volumes hit Steel Pipes performance:** Steel pipes sales fell by 26% YoY, due to a significant drop in volumes (down 19% YoY) and realization (down 9% YoY) amid a slowdown in demand. VAP contribution stood at 45% of revenue in H1FY25 (vs. 45% in FY24). The order book declined to Rs5.5bn in Q2FY25 from Rs6.0bn in Q1FY25. Surya maintained 12%-15% volume growth guidance for FY25 but reduced EBITDA guidance to Rs 4.4bn from Rs5.0-5.25bn.
- Healthy growth in LCD segment:** Revenue grew 5% YoY to Rs3.9bn, driven by healthy volume growth in lighting business and a 50% volume growth in water heater category. This is despite impact of heavy rainfall and flooding in many parts of the country, significant price erosion in LED products, and a subdued fan sales due to seasonality. EBITDA margin contracted by 20bps YoY to 9.1% on account of weak realisation. Surya expects 12%-15% revenue growth and aims for an EBITDA of Rs1.7-1.8bn for FY25.

TP	Rs603
CMP	Rs612
Potential upside/downside	-1%
Previous Rating	HOLD

Price Performance (%)

	-1m	-3m	-12m
Absolute	(14.4)	(6.9)	21.3
Rel to Sensex	(9.1)	(5.0)	1.8

V/s Consensus

EPS (Rs)	FY25E	FY26E
IDBI Capital	31	42
Consensus	--	--
% difference	--	--

Key Stock Data

Bloomberg / Reuters	SYR IN / SURR.BO
Sector	Diversified
Shares o/s (mn)	109
Market cap. (Rs mn)	66,569
3-m daily average value (Rs mn)	20.0
52-week high / low	Rs842 / 467
Sensex / Nifty	77,580 / 23,533

Shareholding Pattern (%)

Promoters	63.0
FII	4.9
DII	0.4
Public	31.7

Financial snapshot

(Rs mn)

Year	FY22	FY23	FY24	FY25E	FY26E
Revenue	77,301	79,960	78,085	76,204	90,733
Change (yoy, %)	39	3	(2)	(2)	19
EBITDA	4,425	6,140	5,721	5,630	7,349
Change (yoy, %)	17	39	(7)	(2)	31
EBITDA Margin(%)	5.7	7.7	7.3	7.4	8.1
Adj.PAT	2,045	3,353	3,289	3,353	4,579
EPS (Rs)	19	31	30	31	42
Change (yoy, %)	29.1	64.0	(1.9)	2	37
PE(x)	31	19	19	19	14
Dividend Yield (%)	0.1	0.6	0.8	0.5	0.5
EV/EBITDA (x)	15.6	11.0	11.0	10.9	8.3
RoE (%)	14.0	19.7	16.3	14.5	15.8
RoCE (%)	15.3	21.8	19.7	18.2	20.2

Source: IDBI Capital Research

Ajit Sahu

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

Exhibit 1: Quarterly Snapshot (Standalone)

(Rs mn)

Year-end: March	Q2FY25	Q1FY25	QoQ (%)	Q2FY24	YoY (%)
Net sales	15,287	18,931	(19.2)	19,155	(20.2)
Expenditure	14,525	17,422	(16.6)	17,782	(18.3)
EBITDA	762	1,509	(49.5)	1,373	(44.5)
<i>EBITDA margin (%)</i>	<i>5.0%</i>	<i>8.0%</i>	<i>-298bps</i>	<i>7.2%</i>	<i>-218bps</i>
Interest	64	49	31.7	64	0.5
Depreciation	309	304	1.7	290	6.6
Other Income	90	76	17.9	15	505.4
PBT	479	1,232	(61.2)	1,033	(53.7)
Tax	118	308	(61.7)	275	(57.0)
Net income	361	924	(61.0)	759	(52.5)
Diluted EPS (Rs)	3.3	8.5	(61.0)	7.0	(52.5)

Source: Company; IDBI Capital Research

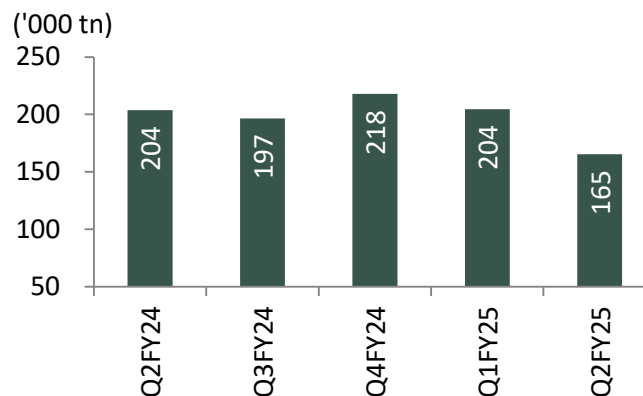
Exhibit 2: Actual vs. Estimates

(Rs mn)

	Q2FY25E	Q2FY25A	Variance (%)
Net sales	19,712	15,287	(22.4)
EBTIDA	1,459	762	(47.7)
Margin (%)	7.4%	5.0%	-241bps
Net profit	880	361	(59.0)
Adj. diluted EPS (Rs)	8.1	3.3	(59.0)

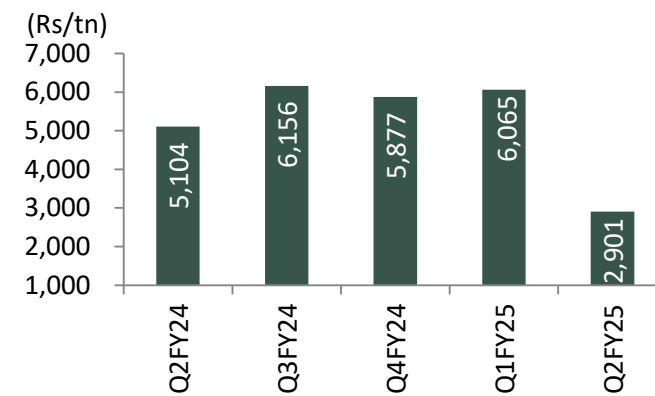
Source: Company; IDBI Capital Research

Exhibit 3: Steel pipes sales volume



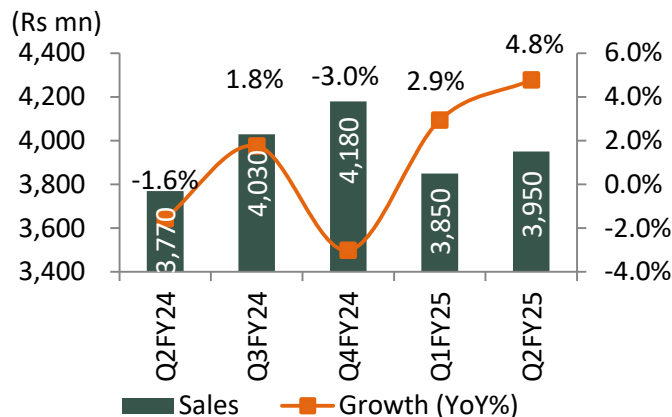
Source: Company; IDBI Capital Research

Exhibit 4: Steel pipes EBIDTA/t down by 43% YoY



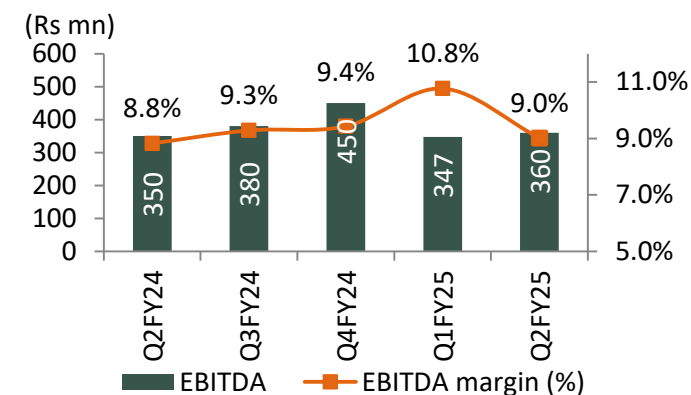
Source: Company; IDBI Capital Research

Exhibit 5: Lighting & CD sales increased 4.8%YoY



Source: Company; IDBI Capital Research

Exhibit 6: Lighting & CD EBITDA grew 3% YoY



Source: Company; IDBI Capital Research

Exhibit 7: Valuation (FY26 estimates)

	(Rs mn)
Steel pipes EBITDA	5,607
Multiple assigned (x)	8.0
Derived value [A]	44,859
Lighting & Consumer Durables EBITDA	1,827
Multiple assigned (x)	10.0
Derived value [B]	18,272
Total EV [A+ B]	63,130
Less: net debt	-2,070
Derived market-cap	65,201
Value per share	603

Source: IDBI Capital Research

Exhibit 8: Change in estimates

	FY25E			FY26E		
	Old	New	(%) Chg	Old	New	(%) Chg
Revenue (Rs mn)	82,215	76,204	(7.3)	90,714	90,733	0.0
EBITDA (Rs mn)	6,578	5,630	(14.4)	7,348	7,349	0.0
EBITDA margin (%)	8.00%	7.4%	-61bps	8.10%	8.1%	0bps
Net profit (Rs mn)	4,058	3,353	(17.4)	4,582	4,579	(0.1)
EPS (Rs)	37.5	31.0	(17.3)	42.4	42.3	(0.1)

Source: Company; IDBI Capital Research

Conference call highlights

Overview

- Board has approved an interim dividend of Rs.2.50/share and declared bonus shares in the ratio of 1:1.
- Management aims to incur 500cr capex in the next 5 years: 100cr this year, 100cr in FY26, and 300cr investment in a greenfield project in Maharashtra, expected to be completed in 3 years.
- SYR will reach 2mn tonnes of production capacity post this expansion.

Steel and Pipes

- Sharp decline in steel prices and slow demand resulted in a downturn. During the quarter, distributors opted to hold back inventory purchases due to falling steel prices.
- Inventory loss occurred due to the extended monsoon and subdued demand caused by lower government expenditure. However, operational efficiencies cushioned the inventory loss to some extent.
- Volumes fell due to the price downturn, resulting in low stock levels among distributors. Freight costs increased due to geopolitical tension. The extended monsoon impacted galvanized pipe demand (-25% QoQ), and decreased government spending (Oil & Gas -65%). However, spiral pipes saw good demand in the water segment.
- The spiral plant at the Gwalior facility is due for commissioning next month. The ERW mill at the Bahadurgarh facility, which started in July, has achieved 7,000 tonnes in output.
- The Anjar facility's large-diameter pipe plant will be commercialised within 12 months.
- The Hindupur facility is expected to be operational in 12 months.
- Volume growth target of 12-15% is set for FY25, with EBITDA/t in the range of Rs.5,000-5,200/t and a volume of 9,15,000 tonnes. A volume target of 1.2mn tonnes is set for FY26, with EBITDA/t in the range of Rs.5,200-5,500.
- Strong bookings in exports and APIs as the USA and Canada markets have reopened for the company, leading to strong volume expectations in the region.

- The spiral pipe facility in Gwalior and galvanized pipe plant will save Rs.2,500-3,000/t in price advantage and are expected to start within 1 year.
- Galvanized pipe coil conversion capacity will be 1lac tonne.
- Exports in the last 6 months stood at 54,000 tonnes (-54% YoY), with a value in the range of Rs.700-800cr.

Lighting and Consumer Durables (LCD)

- A better product mix resulted in growth.
- Consumer lighting saw good volume growth across segments.
- Professional lighting experienced delays in project orders due to elections.
- Consumer appliances saw robust demand. Water heaters recorded a volume growth of 50%, and newly launched segments also experienced healthy growth.
- The company is expanding its distribution channels in rural and suburban areas.
- Volume growth exceeded 15% in Q2.
- Mono-block pumps generated Rs.2cr in revenue.
- 80% of production is in-house, while 20% is outsourced. Of the outsourced products, 80% consist of consumer durables.
- Management aims to invest Rs.20-25cr in capex for the segment, which is expected to increase EBITDA margins to 7-8%.
- Revenue growth of 12-15% is targeted for FY25.

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Net sales	55,614	77,301	79,960	78,085	76,204	90,733
<i>Change (yoy, %)</i>	1.7	39	3	(2)	(2)	19
Operating expenses	(51,821)	(72,876)	(73,820)	(72,364)	(70,574)	(83,384)
EBITDA	3,793	4,425	6,140	5,721	5,630	7,349
<i>Change (yoy, %)</i>	7.3	17	39	(7)	(2)	31
<i>Margin (%)</i>	6.8	5.7	7.7	7.3	7.4	8.1
Depreciation	(1,027)	(1,084)	(1,154)	(1,173)	(1,249)	(1,320)
EBIT	2,766	3,341	4,986	4,549	4,381	6,030
Interest paid	(698)	(636)	(448)	(241)	(242)	(218)
Other income	47	57	52	138	345	310
Pre-tax profit	2,115	2,762	4,589	4,446	4,483	6,122
Tax	(532)	(717)	(1,237)	(1,157)	(1,130)	(1,543)
<i>Effective tax rate (%)</i>	25.1	26.0	26.9	26.0	25.2	25.2
Minority Interest	-	-	-	-	-	-
Net profit	1,584	2,045	3,353	3,289	3,353	4,579
Exceptional items	-	-	-	-	-	-
Adjusted net profit	1,584	2,045	3,353	3,289	3,353	4,579
<i>Change (yoy, %)</i>	55.0	29	64	(2)	2	37
EPS	14.6	18.9	31.0	30.4	31.0	42.3
Dividend per sh	1.8	0.8	3.5	4.5	3.0	3.0
<i>Dividend Payout %</i>	12.0	4.0	11.4	15	10	7

Balance Sheet

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Shareholders' funds	13,652	15,476	18,636	21,635	24,663	28,918
Share capital	536	533	538	542	542	542
Reserves & surplus	13,116	14,943	18,098	21,092	24,121	28,376
Total Debt	7,173	5,931	4,178	160	160	160
Other liabilities	754	689	809	758	758	758
Curr Liab & prov	7,812	9,051	6,949	6,634	6,497	7,174
Current liabilities	6,682	8,050	6,427	6,075	5,937	6,614
Provisions	1,130	1,001	523	559	559	559
Total liabilities	15,739	15,671	11,936	7,553	7,415	8,092
Total equity & liabilities	29,391	31,147	30,572	29,187	32,078	37,010
Net fixed assets	10,289	9,848	9,096	8,405	9,905	10,835
Investments	138	110	114	151	151	151
Other non-curr assets	618	513	488	714	714	714
Current assets	18,346	20,676	20,874	19,917	21,308	25,309
Inventories	8,682	9,876	11,523	10,865	10,648	12,926
Sundry Debtors	7,532	8,882	7,469	7,149	6,890	8,700
Cash and Bank	9	9	16	451	2,319	2,230
Other current assets	2,122	1,910	1,866	1,452	1,452	1,452
Total assets	29,391	31,147	30,572	29,187	32,078	37,010

Cash Flow Statement

(Rs mn)

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Pre-tax profit	2,115	2,762	4,589	4,446	4,483	6,122
Depreciation	1,027	1,084	1,154	1,173	1,249	1,320
Tax paid	(531)	(645)	(1,045)	(1,324)	(1,130)	(1,543)
Chg in working capital	732	680	456	224	-	-
Other operating activities	2,080	(1,031)	(2,361)	883	339	(3,413)
Cash flow from operations (a)	5,423	2,850	2,793	5,402	4,942	2,486
Capital expenditure	(579)	(536)	(332)	(515)	(2,750)	(2,250)
Chg in investments	-	-	-	-	-	-
Other investing activities	(80)	-	-	-	-	-
Cash flow from investing (b)	(659)	(536)	(332)	(515)	(2,750)	(2,250)
Equity raised/(repaid)	(138)	-	-	-	-	-
Debt raised/(repaid)	(3,738)	(1,366)	(1,761)	(4,002)	-	-
Dividend (incl. tax)	(872)	(714)	(821)	(717)	(324)	(324)
Chg in minorities	-	-	-	-	-	-
Other financing activities	-	(234)	120	176	-	-
Cash flow from financing (c)	(4,748)	(2,314)	(2,462)	(4,543)	(324)	(324)
Net chg in cash (a+b+c)	17	(1)	(0)	344	1,867	(88)

Financial Ratios

Year-end: March	FY21	FY22	FY23	FY24	FY25E	FY26E
Book Value (Rs)	126.2	143	172	200	228	267
Adj EPS (Rs)	14.6	18.9	31.0	30.4	31.0	42.3
Adj EPS growth (%)	55.0	29	64	-2	2	37
EBITDA margin (%)	6.8	5.7	7.7	7.3	7.4	8.1
Pre-tax margin (%)	3.8	3.6	5.7	5.7	5.9	6.7
Net Debt/Equity (x)	0.5	0.4	0.2	0.0	-0.1	-0.1
ROCE (%)	12.1	15	22	20	18	20
ROE (%)	12.2	14	20	16	14	16

DuPont Analysis

Asset turnover (x)	1.9	2.6	2.6	2.6	2.5	2.5
Leverage factor (x)	2.3	2.1	1.8	1.5	1.3	1.3
Net margin (%)	2.8	2.6	4.2	4.2	4.4	5.0

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	30.9	18.9	19.2	18.9	13.8
Price/Book value (x)	4.6	4.1	3.4	2.9	2.6	2.2
EV/Net sales (x)	1.3	0.9	0.8	0.8	0.8	0.7
EV/EBITDA (x)	18.6	15.6	11.0	11.0	10.9	8.3
Dividend Yield (%)	0.3	0.1	0.6	0.8	0.5	0.5

Source: Company; IDBI Capital Research



Notes

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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