Surya Roshni

Performance Highlights

Y/E March (₹ cr)	2QFY11	1QFY11	% chg (qoq)	2QFY10	% chg (yoy)
Net Sales	597	508	17.5	532	12.4
EBITDA	33	32	1.7	26	24.1
EBITDA margin (%)	5.5	6.3		5.0	
PAT	7	8	(16.0)	5	45.3

Source: Company, Angel Research

Surya Roshni (Surya) reported top-line growth of 12.4% yoy to ₹597cr (₹532cr) which was below our expectations. However, there was a 52bp improvement in OPM to 5.5% (5.0%), which was in line with our estimates. However, there was an increase in interest cost and tax rate. Overall, net profit increased 45.3% to ₹7cr (₹5cr). The company has expanded its capacity across products in recent years. Going ahead, this expanded capacity is expected to start contributing to sales, thereby driving the company's growth. At current levels, the stock is trading at attractive valuations. **Hence, we maintain a Buy on the stock.**

Top-line growth sluggish; margins expand: Surya reported sluggish top-line growth for the quarter mainly because of slow yoy growth of 8.3% in the steel products division. However, the lighting division sales increased a healthy 21.2% yoy. Overall, contribution from the lighting division to sales increased to 34.0% in the quarter. As a result, OPM improved to 5.5%. Net profit increased 45.2% owing to the 12.4% growth in sales and expansion in margins.

Outlook and Valuation: We remain bullish on the company's business prospects, given completion of its recent expansion and strong presence in the lighting space. Higher contribution from the lighting division is expected improve the company's margin going ahead. We expect the company to post revenue CAGR of 23.8% over FY2010-12, while net profit is expected at ₹97cr in FY2012, increasing at a CAGR of 46.6% over the period. Our bullish stance on the company is further reinforced with the promoters' hiking their stake from 29.1% to 55.0%. Currently, the stock is trading at 8.9x and 5.7x FY2011E and FY2012E standalone EPS, respectively. We maintain a Buy on the stock with an SOTP Target Price of ₹143.

Key Financials (Standalone)

Y/E March (₹ cr)	FY2009	FY2010	FY2011E	FY2012E
Net Sales	1,490	1,794	2,293	2,751
% chg	17.1	20.4	27.8	20.0
Net Profit	22	45	63	97
% chg	5.5	109.8	38.8	54.7
EBITDA (%)	6.5	7.2	7.2	7.5
EPS (₹)	8.3	13.9	12.7	19.7
P/E (x)	13.6	8.1	8.9	5.7
P/BV (x)	1.5	1.4	1.3	1.0
RoE (%)	11.2	19.7	18.0	19.2
RoCE (%)	11.1	12.2	12.8	15.0
EV/Sales (x)	0.5	0.5	0.5	0.4
EV/EBITDA (x)	7.3	7.4	6.5	5.4

Source: Company, Angel Research

BUY

CMP	₹113
Target Price	₹143
Investment Period	12 Months

Stock Info	
Sector	Metals
Market Cap (₹ cr)	314
Fully Dil. Market Cap (₹ cr)	558
Beta	0.9
52 Week High / Low	124/51
Avg. Daily Volume	114872
Face Value (₹)	10
BSE Sensex	20,157
Nifty	6,072
Reuters Code	SURR.BO
Bloomberg Code	SYR@IN

Shareholding Pattern (%)	
Promoters	29.1
MF / Banks / Indian FIs	3.8
FII / NRIs / OCBs	0.5
Indian Public / Others	66.7

Abs. (%)	3m	1yr	3yr
Sensex	11.5	20.7	7.6
Surya Roshni	12.3	96.8	47.1

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Exhibit 1: 2QFY2011 performance

Y/E March (₹ cr)	2QFY11	2QFY10	% chg (yoy)	1HFY11	1HFY10	% chg
Net Sales	597	532	*12.4*	1,105	939	*17.7*
Consumption of RM	419	386	*8.4*	778	682	*14.1*
(% of Sales)	*70.1*	*72.7*		*70.4*	*72.6*	
Staff Costs	28	21	*28.6*	52	39	*33.7*
(% of Sales)	*4.6*	*4.0*		*4.7*	*4.1*	
Other Expenses	118	97	*21.4*	210	168	*25.2*
(% of Sales)	*19.8*	*18.3*		*19.0*	*17.9*	
Total Expenditure	565	505	*11.8*	1,041	889	*17.1*
Operating Profit	33	26	*24.1*	65	50	*28.4*
OPM (%)	5.5	5.0		5.9	5.4	
Interest	15	13	*14.9*	29	25	*15.8*
Depreciation	8	7	*17.3*	17	14	*22.7*
Other Income	0	0	*(21.7)*	0	0	*(19.0)*
PBT (excl. Extr. Items)	10	6	*48.3*	19	12	*58.3*
Extr. Income/(Expense)	-	-		-	-	
PBT (incl. Extr. Items)	10	6	*48.3*	19	12	*58.3*
(% of Sales)	*1.6*	*1.2*		*1.8*	*1.3*	
Provision for Taxation	3	2	*56.9*	4	3	*24.8*
(% of PBT)	*27.2*	*25.7*		*21.0*	*26.6*	
Reported PAT	7	5	*45.3*	15	9	*70.5*
PATM (%)	1.2	0.9		1.4	1.0	
Equity shares (cr)	2.8	2.6		2.8	2.6	
EPS (₹)	2.5	1.9	*35.3*	5.5	3.5	*58.7*
Adjusted PAT	7	5	*45.3*	15	9	*70.5*

Source: Company, Angel Research

Segment-wise performance: Sales of the steel division grew at 8.3% yoy to ₹394cr during the quarter. The segment reported EBIT of ₹8.7cr, implying EBIT Margin of 2.2%, an expansion of 14bp yoy.

Surya's 2QFY2011 sales were driven primarily by the lighting division. The division grew 21.2% yoy to ₹203cr. There was a yoy improvement of 63bp in EBIT margins to 7.8%. As a result of improvement in margins as well as higher contribution to sales from this segment, the company's overall margins increased to 5.5%.

Exhibit 2: Segment-wise performance

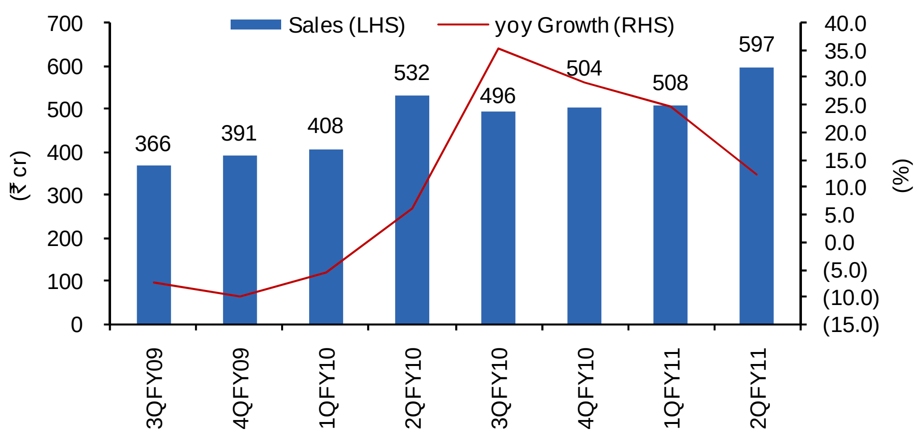
Y/E March (₹ cr)	2QFY11	1QFY11	2QFY10	% chg (qoq)	% chg (yoy)
Total Revenue					
A) Steel Products	394	341	364	*15.6*	*8.3*
B) Lighting Products	203	167	168	*21.5*	*21.2*
Total	597	508	532	*17.5*	*12.4*
Less: Inter-Seg. Revenue	-	-	-		
Net Sales	597	508	532	*17.5*	*12.4*
EBIT Margin (%)					
A) Steel Products	2.2	2.5	2.1	*(29bp)*	*14bp*
B) Lighting Products	7.8	9.0	7.2	*(120bp)*	*63bp*

Source: Company, Angel Research

Sales steady

Surya has been registering steady increase in sales over the past few quarters. The trend continued in 2QFY2011, with sales growing 12.4% yoy and 17.5% qoq. Going ahead, we expect a strong increase in sales, as utilization levels in the recently expanded capacities improve.

Exhibit 3: Sales trend

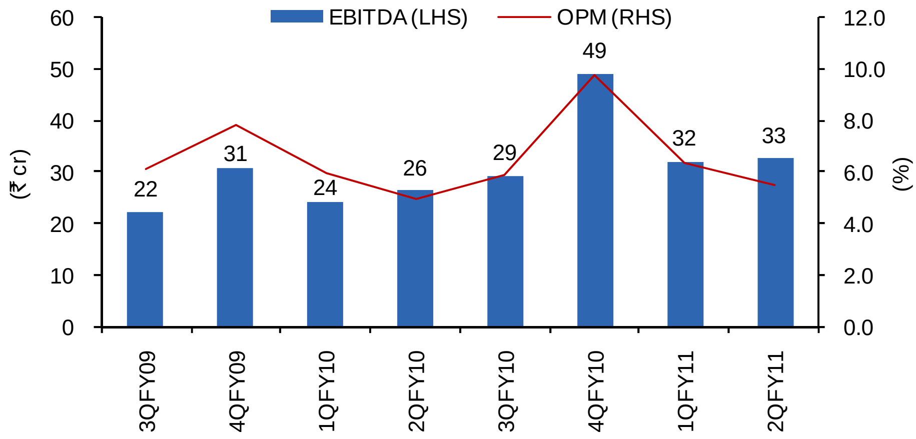


Source: Company, Angel Research

OPM increases by 52bp

The company showed an improvement of 52bp yoy in OPM to 5.5%. Operating profit increased to ₹33cr owing to the growth in top-line and improvement in OPM.

Exhibit 4: OPM trend

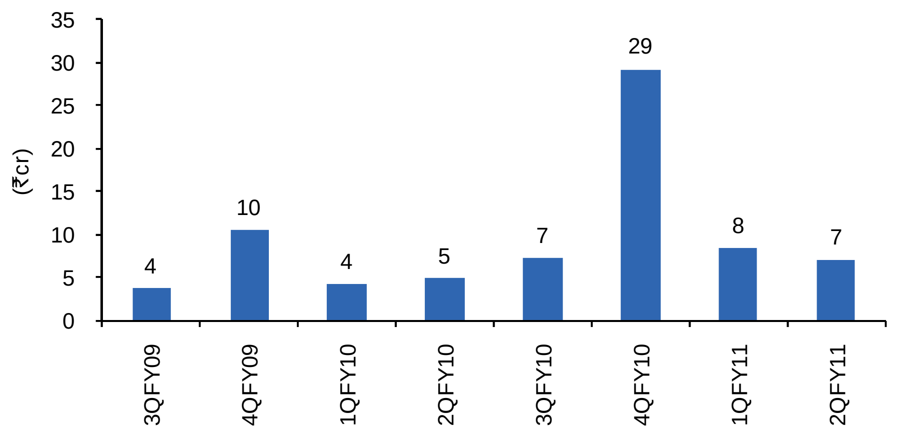


Source: Company

Profit up 45%

Owing to the improvement in top-line and margins, the company posted an increase of 45.3% yoy in bottom-line to ₹7cr. Going ahead also, we expect net profit to continue on strong growth trajectory on the back of further increase in top-line and OPM.

Exhibit 5: Profit trend



Source: Company, Angel Research

Other Developments

- Management is confident of achieving strong growth in sales over the coming years. The money infused from the warrant conversion would be used to meet working capital and other requirements.
- The promoters converted the warrants issued earlier; during the quarter, fresh warrants worth ₹60.8cr, convertible at ₹111/share were also issued.
- The conversion of warrants during the quarter triggered an open offer to acquire up to 20% of the company outstanding equity at the offer price of ₹111/share. The offer would remain open from December 08, 2010 to December 27, 2010.

- Owing to the conversion of warrants, the promoters' stake has increased to 55.0%. When the fresh warrants are converted, promoters' stake would further increase to 60.0%, assuming there is no tendering of shares in the open offer.

Investment Arguments

Large capacity expansion to lead to high sales growth: Surya has completed its capacity expansion across products, including capacity increase of 358% in compact fluorescent lamps (CFL) and 29% in steel pipes. This is expected to result in high sales growth at a 23.8% CAGR over FY2010–12. Post the substantial capex, sales contribution from the high-RoIC lighting division is expected to increase, thereby resulting in RoE of 19.2%. In the same period, net debt-to-equity is expected to reduce from 2.5x to 1.0x. The company has delivered strong yoy growth of 17.7% in top line and 70.5% in net profit in 1HFY2011, indicating its strong prospects.

Strong brand in the lighting industry: Surya has been a household name in the lighting space for over two decades. The company has presence across more than 100,000 retail outlets. Surya has maintained its brand identity through substantial advertisement spend and a strong retail network. In FY2010, the company spent more than ₹11cr on advertisements, which is 2.0% of its lighting division sales.

Promoters hiking their stake: The promoters have subscribed to three rounds of warrant allocations, amounting to a total investment of ₹193cr. The first was at ₹59/share, the second at ₹83/share and the third at ₹111/share. The first two tranches have been converted into equity recently, increasing the promoters' stake to 55.0% from 24.1%. We expect the third round of warrants to be converted by FY2012, which will increase the promoters' stake to 60.0% from 55.0% currently.

Outlook and Valuation

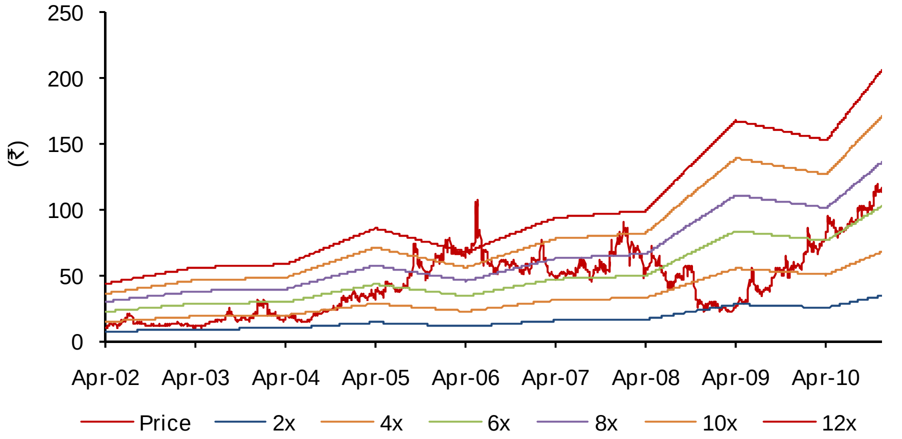
We remain bullish on the company's business prospects, given completion of its recent expansion and strong presence in the lighting space. Higher contribution from the lighting division is expected to improve the company's margin going ahead. We expect the company to post revenue CAGR of 23.8% over FY2010-12, while net profit is expected at ₹97cr in FY2012, increasing at a CAGR of 46.6% over the period. Our bullish stance on the company is further reinforced with the promoters' hiking their stake from 29.1% to 55.0%. Currently, the stock is trading at 8.9x and 5.7x FY2011E and FY2012E standalone EPS, respectively. We maintain a Buy on the stock with an SOTP Target Price of ₹143.

Exhibit 6: 2QFY2011 performance: Actual v/s Estimated

(₹ cr)	Actual	Estimated	Difference (%)
Sales	597	634	(5.7)
EBITDA	33	35	(6.2)
OPM (%)	5.5	5.5	-
PAT	7	10	(30.1)

Source: Company, Angel Research

Exhibit 7: One-year forward P/E



Source: Company, Bloomberg, Angel Research

Exhibit 8: Peer valuation

Company	Mcap	CMP	P/E (x)		P/BV (x)		RoE (%)		CAGR (for 2010-12E)	
(₹ cr)	(₹ cr)	(₹)	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E	Sales	PAT
Surya Roshni	558	113	8.9	5.7	1.3	1.0	18.0	19.2	23.8	46.6
Bajaj Electricals	2,661	271	16.7	13.1	4.3	3.4	29.2	29.6	20.6	31.4
Jindal Saw	5,857	212	12.0	10.0	1.5	1.3	14.2	14.0	9.2	34.9

Source: Company, Bloomberg, Angel Research

Exhibit 9: Key assumptions

	FY2011E	FY2012E	Remarks
Cap. Utilisation in Steel Division (%)	80.0	90.0	Utilisation in newly added capacity to increase in FY2012
Sales of CFL (₹ cr)	326	392	Sales to be backed by market share gain and increase in demand
OPM (%)	7.2	7.5	OPM expansion expected on higher contribution from lighting division
Equity (₹ cr)	440	571	Warrant conversion to result in increase in shareholders' funds

Source: Angel Research

Profit and loss (Standalone)

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Gross sales	1,217	1,405	1,609	1,897	2,440	2,927
Less: Excise duty	118	133	119	104	146	176
Net Sales	**1,099**	**1,272**	**1,490**	**1,794**	**2,293**	**2,751**
Total operating income	**1,099**	**1,272**	**1,490**	**1,794**	**2,293**	**2,751**
% chg	*8.6*	*15.7*	*17.1*	*20.4*	*27.8*	*20.0*
Total Expenditure	1,020	1,196	1,392	1,665	2,129	2,545
Net Raw Materials	806	953	1,147	1,324	1,692	2,024
Other Mfg costs	164	187	181	253	325	386
Personnel	50	55	64	88	112	135
EBITDA	**80**	**76**	**97**	**129**	**164**	**206**
% chg	*(2.8)*	*(4.3)*	*27.9*	*32.1*	*27.4*	*25.8*
(% of Net Sales)	*7.2*	*6.0*	*6.5*	*7.2*	*7.2*	*7.5*
Depreciation& Amortisation	27	26	24	27	32	35
EBIT	**53**	**51**	**74**	**102**	**132**	**172**
% chg	*(2.5)*	*(4.7)*	*45.9*	*37.7*	*30.2*	*29.8*
(% of Net Sales)	*4.8*	*4.0*	*5.0*	*5.7*	*5.8*	*6.2*
Interest & other Charges	31	38	46	49	59	54
Other Income	1	15	1	1	1	1
(% of PBT)	*4.6*	*54.5*	*2.1*	*1.6*	*1.2*	*0.8*
Recurring PBT	**23**	**27**	**28**	**54**	**75**	**118**
% chg	*(20.1)*	*19.8*	*1.6*	*92.6*	*38.8*	*58.6*
PBT (reported)	**23**	**27**	**28**	**54**	**75**	**118**
Tax	8	7	6	9	12	21
(% of PBT)	*35.4*	*25.8*	*22.9*	*16.0*	*16.0*	*18.0*
PAT (reported)	**15**	**20**	**22**	**45**	**63**	**97**
ADJ. PAT	**15**	**20**	**22**	**45**	**63**	**97**
% chg	*(20.8)*	*37.8*	*5.5*	*109.8*	*38.8*	*54.7*
(% of Net Sales)	*1.3*	*1.6*	*1.4*	*2.5*	*2.7*	*3.5*
Basic EPS (₹)	**5.7**	**7.8**	**8.3**	**16.2**	**14.3**	**19.7**
Fully Diluted EPS (₹)	**5.7**	**7.8**	**8.3**	**13.9**	**12.7**	**19.7**
% chg	*(20.8)*	*37.8*	*5.5*	*68.3*	*(8.8)*	*54.7*

Balance Sheet (Standalone)

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
SOURCES OF FUNDS						
Equity Share Capital	26	26	26	28	44	49
Reserves& Surplus	140	155	172	220	378	519
Shareholders Funds	**166**	**181**	**198**	**248**	**422**	**568**
Share Warrants	2	2	2	9	18	2
Total Loans	382	403	440	664	594	574
Deferred Tax Liability	49	48	51	56	56	56
Total Liabilities	**598**	**633**	**692**	**976**	**1,089**	**1,200**
APPLICATION OF FUNDS						
Gross Block	605	607	683	829	907	962
Less: Acc. Depreciation	311	322	344	369	401	435
Net Block	**295**	**285**	**339**	**460**	**506**	**527**
Capital Work-in-Progress	20	31	10	48	20	10
Investments	7	-	16	50	50	50
Current Assets	**313**	**358**	**377**	**498**	**593**	**701**
Cash	5	5	9	10	12	10
Loans & Advances	26	28	26	28	28	28
Other	281	324	341	460	553	663
Current liabilities	36	40	50	80	81	88
Net Current Assets	**276**	**318**	**327**	**418**	**512**	**613**
Total Assets	**598**	**633**	**692**	**976**	**1,089**	**1,200**

Cash Flow Statement (Standalone)

Y/E March (₹ cr)	FY07	FY08	FY09	FY10	FY11E	FY12E
Profit before tax	23	27	28	54	75	118
Depreciation	27	26	24	27	32	35
Change in Working Capital	(18)	(42)	(5)	(85)	(92)	(103)
Less: Other income	(0)	(15)	(0)	(0)	-	-
Direct taxes paid	(7)	(8)	(4)	(10)	(12)	(21)
Cash Flow from Operations	**23**	**(11)**	**43**	**(14)**	**2**	**29**
(Inc.)/ Dec. in Fixed Assets	(56)	(11)	(57)	(186)	(50)	(45)
(Inc.)/Dec. in Investments	0	7	(16)	(34)	-	-
(Inc.)/ Dec. in loans and adv.	(3)	(2)	2	(2)	-	-
Other income	0	15	0	0	-	-
Cash Flow from Investing	**(59)**	**9**	**(71)**	**(222)**	**(50)**	**(45)**
Issue of Equity	-	-	(11)	18	130	46
Inc./(Dec.) in loans	40	21	49	223	(70)	(20)
Dividend Paid (Incl. Tax)	(4)	(5)	(5)	(4)	(10)	(12)
Others	(0)	(15)	(0)	(0)	-	-
Cash Flow from Financing	**35**	**2**	**33**	**237**	**50**	**14**
Inc./(Dec.) in Cash	(0)	0	5	1	2	(2)
Opening Cash balances	**5**	**5**	**5**	**9**	**10**	**12**
Closing Cash balances	**5**	**5**	**9**	**10**	**12**	**10**

Key Ratios

Y/E March	FY07	FY08	FY09	FY10	FY11E	FY12E
Valuation Ratio (x)						
P/E (on FDEPS)	19.8	14.4	13.6	8.1	8.9	5.7
P/CEPS	7.1	6.4	6.5	5.1	5.9	4.2
P/BV	1.7	1.6	1.5	1.4	1.3	1.0
Dividend yield (%)	1.3	1.3	1.1	1.8	1.8	1.8
EV/Sales	0.6	0.5	0.5	0.5	0.5	0.4
EV/EBITDA	8.4	9.0	7.3	7.4	6.5	5.4
EV / Total Assets	1.1	1.1	1.0	1.0	1.0	0.9
Per Share Data (₹)						
EPS (Basic)	5.7	7.8	8.3	16.2	14.3	19.7
EPS (fully diluted)	5.7	7.8	8.3	13.9	12.7	19.7
Cash EPS	15.9	17.7	17.4	22.3	19.1	26.7
DPS	1.5	1.5	1.2	2.0	2.0	2.0
Book Value	64.6	70.4	77.3	79.3	89.2	115.8
Dupont Analysis						
EBIT margin	4.8	4.0	5.0	5.7	5.8	6.2
Tax retention ratio (%)	64.6	74.2	77.1	84.0	84.0	82.0
Asset turnover (x)	2.1	2.3	2.5	2.3	2.4	2.6
ROIC (Post-tax)	6.6	6.7	9.4	11.1	11.5	13.1
Cost of Debt (Post Tax)	5.6	7.2	8.5	7.4	7.8	7.6
Leverage (x)	2.2	2.2	2.2	2.4	1.8	1.1
Operating RoE	8.9	5.5	11.3	19.7	18.0	19.2
Returns (%)						
RoCE (Pre-tax)	9.3	8.2	11.1	12.2	12.8	15.0
Angel RoIC (Pre-tax)	10.6	9.4	12.6	13.7	14.2	16.2
RoE	9.1	11.6	11.2	19.7	18.0	19.2
Turnover ratios (x)						
Asset Turnover (Gross Block)	1.9	2.1	2.3	2.4	2.6	2.9
Inventory / Sales (days)	52	50	47	49	52	52
Receivables (days)	38	37	34	33	36	36
Payables (days)	6	6	5	7	8	8
Work. cap. cycle (ex-cash) (days)	85	83	78	76	75	75
Solvency ratios (x)						
Net debt to equity	2.2	2.2	2.1	2.5	1.3	1.0
Net debt to EBITDA	4.7	5.2	4.4	5.1	3.5	2.7
Interest Coverage (EBIT / Interest)	1.7	1.3	1.6	2.1	2.3	3.2

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DISCLAIMER

Disclosure of Interest Statement	**Surya Roshni**
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	Yes
3. Angel and its Group companies' Directors ownership of the stock	Yes
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors.

Ratings (Returns) :	*Buy (> 15%)*	*Accumulate (5% to 15%)*	*Neutral (-5 to 5%)*
	Reduce (-5% to 15%)	Sell (< -15%)	