

Rating Update
May 26, 2023 | Mumbai**Suraj Limited****Update as on May 26, 2023**

This update is provided in continuation of the rating rational below.

The key rating sensitivity factors for the rating include:

Upward factors

- Sustained revenue growth and improvement in operating margin (of over 8%) leading to higher cash accrual
- Significant improvement in RoCE

Downward factors

- Pressure on topline or decline in operating profitability (by over 200 basis points) on a sustained basis
- Large capital expenditure or substantial increase in working capital requirements weakening the liquidity and financial risk profiles

CRISIL Ratings has a policy of keeping its accepted ratings under constant and ongoing monitoring and review. Accordingly, CRISIL Ratings seeks regular updates from companies on the business and financial performance. CRISIL Ratings is, however, awaiting adequate information from Suraj Limited (Suraj) which will enable us to carry out the rating review. CRISIL Ratings will continue provide updates on relevant developments from time to time on this credit.

CRISIL Ratings also identifies information availability risk as a key credit factor in the rating assessment as outlined in its criteria 'Information Availability Risk in Credit Ratings'.

About the Company

Suraj manufactures stainless steel seamless pipes, tubes and U tubes, flanges and fittings with electro-polishing. Its plant is located at Thol, Mehsana in Gujarat. Mr Ashok Shah, Mr Gurnvant Shah and Mr Kunal Shah are the promoters.

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Rating Rationale

September 26, 2022 | Mumbai

Suraj Limited

Rating Reaffirmed; Short term rating Withdrawn

Rating Action

Total Bank Loan Facilities Rated	Rs.59.44 Crore (Reduced from Rs.77 Crore)
Long Term Rating	CRISIL BBB-/Stable (Reaffirmed)
Short Term Rating	CRISIL A3 (Withdrawn)

1 crore = 10 million

Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed its 'CRISIL BBB-/Stable' rating on the long-term bank facilities of Suraj Limited (Suraj) and has **withdrawn** the rating on the short term proposed bank limits at the request of the company.

The rating continues to reflect the extensive experience of the promoters of Suraj in the stainless-steel pipes industry, its healthy scale of operation and above average capital structure. These strengths are partially offset by moderate profitability, average debt protection measures, large working capital requirement and exposure to intense competition.

Analytical Approach

CRISIL Ratings has considered the standalone business and financial risk profiles of Suraj.

Key Rating Drivers & Detailed Description

Strengths:

- Extensive experience of the promoters:** The promoters' experience of over three decades in the stainless-steel pipes industry, their in-depth understanding of the dynamics of the market and established relationships with suppliers and customers should continue to support the business.
- Healthy scale of operation:** Scale remains moderate with revenue of Rs 348 crore in fiscal 2022, which increased from Rs 189 crore the previous fiscal due to improved demand for the company's products in the domestic as well as export markets. Exports also increased to 75% from 68% for the same period. Revenue remained healthy at Rs 83 crore during the first three months of fiscal 2023.
- Above average capital structure:** Networth and total outside liabilities to adjusted networth ratio were comfortable at Rs 92.17 crore and 0.71 time, respectively, as on March 31, 2022. The moderate networth has enabled a controlled leverage for the company despite the large working capital requirement. Capital structure is expected to remain moderate despite buyback of shares undertaken by the company in fiscal 2023.

Weaknesses:

- Moderate profitability:** Operating margin declined to 5.01% in fiscal 2022 from 9.14% the previous fiscal due to increase in the prices of key raw materials and transportation costs, which the company was not able to fully pass on to its customers amidst largely fixed orders. However, increase in revenue resulted in stable cash accrual for the year. Operating margin has improved to 7.20% during the first three months of fiscal 2023 resulting in enhanced cash accrual.
- Average debt protection measures:** Interest coverage and net cash accrual to total debt ratios were average at 3.12 times and 0.29 time, respectively, for fiscal 2022. Moderate operating margin with high borrowing costs and working capital intensity restrains the debt protection measures.

- **Large working capital requirements:** Gross current assets were sizeable at 114 days as on March 31, 2022 (226 days a year earlier) driven by moderate debtor and inventory levels. Due to business requirement, Suraj has large work-in-process and finished inventory. Further, moderate credit needs to be extended to customers. Working capital intensity resulted in a modest return on capital employed (RoCE) of 7.47% in fiscal 2022.
- **Exposure to intense competition:** Intense competition in the stainless-steel industry, low product differentiation and high price sensitivity means that the company is a price taker in the market.

Fund Based Facilities	LT	77.0	CRISIL BBB-/Stable	31-05-22	CRISIL BBB-/Stable / CRISIL A3	26-03-21	CRISIL BBB-/Stable		--		--	--
Non-Fund Based Facilities	ST		--		--	26-03-21	CRISIL A3		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit	50	HDFC Bank Limited	CRISIL BBB-/Stable
Proposed Fund-Based Bank Limits	17.56	Not Applicable	Withdrawn
Working Capital Term Loan	9.44	HDFC Bank Limited	CRISIL BBB-/Stable

This Annexure has been updated on 26-Sep-2022 in line with the lender-wise facility details as on 2-Aug-2021 received from the rated entity

Criteria Details

Links to related criteria
Understanding CRISILs Ratings and Rating Scales
CRISILs Bank Loan Ratings
The Rating Process
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufacturing and service sector companies
CRISILs Approach to Financial Ratios
Understanding CRISILs Ratings and Rating Scales
CRISILs Approach to Recognising Default
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Aveek Datta Media Relations CRISIL Limited M: +91 99204 93912 B: +91 22 3342 3000 AVEEK.DATTA@crisil.com	Rahul Subrato Kumar Guha Director CRISIL Ratings Limited D: +91 22 4097 8320 rahul.guha@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number: 1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com
Prakruti Jani Media Relations CRISIL Limited M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com	Nilesh Agarwal Associate Director CRISIL Ratings Limited D: +91 22 3342 8024 Nilesh.Agarwal1@crisil.com	For Analytical queries: ratingsinvestordesk@crisil.com
Rutuja Gaikwad Media Relations CRISIL Limited B: +91 22 3342 3000 Rutuja.Gaikwad@ext-crisil.com	Nikhil Gupta Senior Rating Analyst CRISIL Ratings Limited B: +91 79 4024 4500 Nikhil.Gupta@crisil.com	

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