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SURYA

SURYA ROSHNI LIMITED

LIGHTING DIVISION
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SRL/24-25/21
August 16, 2024

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 for the Quarter ended 30th June, 2024

Dear Sir,

This is with reference to the Company intimation dated 1st August, 2024 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 Un-Audited financial results and operational performance for the quarter ended 30th June, 2024 scheduled for Friday, 09th August, 2024 at 4:00 P.M (IST).

Further to the audio recording filed with the stock exchanges already on 09th August, 2024, we are enclosing the Transcript of the said Earnings Call.

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

This is for your information and records.

Thanking you,

Yours faithfully
For Surya Roshni Limited
BHARAT BHUSHAN SINGAL
Digitally signed by BHARAT BHUSHAN SINGAL
Date: 2024.08.16 15:52:41 +05'30'
B B SINGAL
CFO & COMPANY SECRETARY

Enclosed: as above.

"Surya Roshni Limited

Q1 FY '25 Earnings Conference Call"

August 09, 2024

E&OE - This transcript is edited for factual errors. In case of discrepancy, the audio recordings uploaded on the stock exchanges on 9th August 2024 will prevail.

MANAGEMENT: **MR. RAJU BISTA – MANAGING DIRECTOR**

MR. NARESH SINGHAL – EXECUTIVE DIRECTOR, STEEL OPERATION

MR. JITENDRA AGRAWAL – CHIEF EXECUTIVE OFFICER, LIGHTING & CONSUMER DURABLES

MR. B. B. SINGAL – CHIEF FINANCIAL OFFICER AND COMPANY SECRETARY

Moderator: Ladies and gentlemen, good day and welcome to Surya Roshni Limited Q1 FY25 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 the 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 touch-tone phone. Please note that this conference is being recorded.

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

Raju Bista: Thank you. Good afternoon, everyone. On behalf of Surya Roshni Limited, I once again extend a very warm welcome to everyone for joining us today.

On this call, we are joined by Mr. Naresh Singhal, Executive Director Steel Operations, Mr. Jitendra Agrawal, CEO of Lighting and Consumer Durable and our CFO and Company Secretary, Mr. Bharat Bhushan Singal and SGA, our Investor Relations Advisor. I hope everyone had an opportunity to go through the financial results which was published today.

Moving on to the overall financial performance highlights, we are pleased to report a healthy operating performance for Q1 FY25 despite the slowdown due to general election, some few 8%-9% price erosion on steel parts. But our continued focus on value-added product in steel pipe segment and offering innovative product in the lighting and consumer durable - we have been able to give a very healthy kind of EBITDA margins improvement.

EBITDA for Q1 FY25 increased significantly by 36% year-on-year to ₹159 crores from ₹116 crores in the previous year. EBITDA margins improved by 217 basis points reaching to 8.37% compared to 6.2% in Q1 FY24. This improvement underscores our ability to optimize cost and improve profitability even in a challenging market environment.

We are proud to state that Surya Roshni Limited is a zero-debt company with a cash surplus of ₹160 crores as of the end of Q1 FY25. This strong financial position provides us with the flexibility to invest in growth opportunities and navigate any market challenges.

Coming down to the **lighting and consumer durable**, we achieved a revenue growth of 3% despite the challenges of price erosion in the consumer lighting segment, which was about 9% in Q1 FY25. High capacity utilization at our manufacturing plants has positively driven EBITDA through better operational efficiency.

We have introduced new and improved products across various segments to meet the growing consumer preference for energy efficient, high quality and aesthetically pleasing products.

The professional lighting segment showed an impressive 18% growth driven by strong performance in infrastructure and industrial projects. In professional lighting, we are also focused on indoor and solar lighting to capitalize on growth opportunities. We have also launched higher performance street lights offering a smart value proposition with a lower cost of ownership.

The appliances segment witnessed a 15% volume growth. Our fan business recorded an exceptional 43% volume growth due to increased distribution channels and introduction of energy efficient products.

We have entered into a very new product segment of Mono Block Residential Pumps via launch of 'Surya Water Pumps' in the month of July itself. The market size for such pumps is around ₹1,000 crores in India and it is growing fast driven by 'Har Ghar Jal Yojana' scheme of Government of India.

We anticipate a revenue growth of 12%-15% for FY25 driven by the rising aspiration of consumers and Government focus on infrastructure and industrial capital expenditure. Our target is to achieve an EBITDA of ₹180 crores for lighting business for the financial year by focusing on higher margins product, cost management and leveraging the benefit of PLI scheme.

Now, moving on to the **steel pipe and strip division**. The steel pipe segment demonstrated commendable resilience and adaptability in Q1 FY25. Despite a slowdown in Government projects due to general election and steel pipe erosion, we have witnessed a 7% volume growth in steel segment.

Value-added products such as API spiral and galvanizing pipes constituted about 46% of our total revenue in Q1 FY25. This focus has helped us mitigate the impact of price erosion in steel prices.

We have a good order book of approximately ₹600-₹700 crores as of 30th June 2024, primarily from the oil and gas sectors.

We have commenced trial run for the 8-inch pipe, leading to the capacity addition of 50,000 tons per year at Bahadurgarh facility, with commercial operation set to start very soon. The modernization of coal rolling plant at Bahadurgarh is expected to commence operation in Q3 FY25. The spiral pipe plant at the Gwalior facility, with an annual capacity of 60,000 tons, is on track to begin operations by December 24.

All these expansions will enable us to increase our production capacity by around 15,000 tons per month from the last quarter of FY25. So looking ahead, we anticipate robust growth across our pipe segment in the coming quarters, supported by the Indian government's significant infrastructure initiatives. The stabilization of steel prices at the current levels and the government's increase emphasis on infrastructure development bode well for our future prospects.

We expect 12%-15% volume growth in steel pipe segment too for FY25. Our focus on strategic capacity expansion and technological advancements positions us well to meet the increasing market demand, particularly in the water infrastructure and energy sectors.

In conclusion, we remain dedicated to driving growth, expanding our capabilities and maintaining our leadership in the market.

And now, I will request our CFO, Mr. B.B. Singhal, to share his thoughts.

B.B. Singal: Thank you, respected MD, sir. And a very good afternoon to all the participants on the call.

For the quarter, the revenue was ₹1,893 crores as compared to ₹1,875 crores. Q1 FY25 EBITDA and PAT stood at ₹159 crores and ₹92 crores up by 36% and 56% as compared to ₹116 crores and ₹59 crores respectively for the same period last year. Significant improvement in EBITDA in Q1 FY25 was on account of sharp spurt in EBITDA/ton of our Steel Pipe and Strips business and steady uptake in operating performance of our Lighting and Consumer Durables segment.

In Lighting and Consumer Durables, for the quarter, the revenues stood at ₹385 crores as against ₹375 in Q1 FY '24. EBITDA and PBT stood at ₹35 crores and ₹26 crores, registering a growth of 5% and 1%, respectively.

In the Steel Pipes and Strips, during Q1 FY '25, the revenue was ₹1,509 crores as compared to ₹1,503 crores. Similarly, EBITDA/MT stood at ₹6,065, a jump of 38%, as compared to ₹4,388 in Q1 of FY '24. PBT stood at ₹97 crores, up by 76% as against ₹55 crores last year.

Improved capacity utilization, working capital optimization and cost rationalization enabled us to become a zero-debt company, and have cash surplus of ₹156 crores in Q1 of FY '25. As on 30th June '24, ROCE stood at 22.93% and ROE stood at 16.71%. As on 30th June '24, the net working capital days stood at 67 days, inventory days stood at 51 days, debtor days stood at 38 days and creditor days stood at 23 days.

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

Moderator: Thank you very much. We will now begin with the question and answer session. The first question is from the line of Aditya Pal from MSA Capital Partners. Please go ahead.

Aditya Pal: Thank you. Sir, congratulations on the good set of numbers. So, we have witnessed very strong improvement in our gross margins. So, if I were to attribute between the Steel Pipe segment and the Lighting and Consumer Durable segment, can you give some commentary on that?

Raju Bista: The overall margins have improved. And as I mentioned in my commentary, our entire focus is on higher value-added products. And similarly, in the Lighting segment we focus on the new product categories. In that too, most of the products are from that involve engineering- so that's why the overall margins are improving.

For example, if I talk about the steel segment, if we sell the normal ERW pipe, the gross margin is around ₹4,500 to ₹5,000 per ton. But in higher value-added products, the EBITDA margin is around ₹10,000 to ₹10,500 per ton. So, gradually, our focus is on the same. And even in the capex expansion of ₹500 crores that we are undertaking, about 75% of the same is focused on higher value-added products. So, that is one.

Similarly, on the Lighting division, the demand for conventional lighting is very low. We are also shifting our market from there and mostly moving towards smart lighting. And our focus is on solar and say specific scientific products or tailor-made products.

And similarly, there is a very large market size, in which we still see a lot of opportunity in that segment, is that of professional lighting. The consumer products like bulb, tube light, batten, are used for homes. But commercial and industrial products have usage in the kind of new highways that are constructed today and infrastructure projects like airports, modernization of railway stations, and Amrut Yojana. All of them are catered by the professional lighting segment. Earlier, professional lighting used to be a small part of our overall lighting segment. Now, we are gradually increasing it.

So, basically, this was the area. And I also believe that the numbers that we had thought of when I did the last commentary, or when I was sitting in the previous earning call, we have come close to achieving that. In fact, there is more improvement.

We still have a little problem in two places. During the entire year, we had price erosion of 29% in the lighting segment. And in the last quarter, in the last three months, the price erosion was around 9%. And similarly, in the steel division, the price has corrected by around 8% over the last three to four months,. Somehow, when the price goes down and erosion occurs, it has a slight impact on our gross margins as well, even if it is ₹400 or ₹500 per ton.

Aditya Pal: Sir, when we look at FY25, we have achieved Gross Margin of24%. So, going forward, can we see it touching to 25% on a steady state quarterly basis or will 25% be a little more?

Raju Bista: No, we will do at least 24%. In fact it will also improve because this was quarter one and due to the general election there was a slowdown in projects. So, in the remaining quarters, our gross margin will improve.

Aditya Pal: Understood. And sir, just one last question before I come back in the queue. How much of ₹500 crores capex you will spend in FY25 and how much capacity will be used by you in this year?

Raju Bista: Overall, as I told you about cold rolling and 8-inch ERW pipe in Bahadurgarh, these two capex projects will enhance our capacity by 50,000 tons per annum. But both these capex projects will commence operations from Q3. I mean one project of a pipe in commencing from August, but its full fledge impact will also come in Q3 only. Similarly, the spiral plant capex project in Gwalior Facility will enable us to increase volume by around 60,000 tons per annum capacity in which we are incurring investment of ₹30 crores. This capex project will also start from Q3. So these three capex projects have an investment of ₹100 crores, for which the production will start from the third quarter.

Apart from that, out of the remaining ₹400 crores of capex project, we will undertake capex of about ₹150 crores to ₹200 crores in this year and in next year the capex will be around ₹200 crores. So in totality, we will undertake capex of ₹250 crores to ₹300 crores in this year and the balance capex of ₹200 crores will happen in FY26. And due to this, our overall capacity will increase from12 lakh tons to 19 lakh tons. And in this too, as I told previously, our focus is more on higher margin products. So we are moving forward in that direction.

Aditya Pal: So this revenue will grow from Q3 onwards because these big plants will be commercialized only then, correct?

Raju Bista: Yes.

Aditya Pal: Understood. Thank you so much, sir. And wishing you and the team all the very best.

Raju Bista: Thank you.

Moderator: Thank you. The next question is from the line of Naveen Baid from Nuvama Asset Management. Please go ahead.

Naveen Baid: Yes. Thank you for the opportunity, sir. I just want to confirm that of the ₹300 crores capex that you have outlined for this year, ₹100 crores is for those two plants that you said, the remaining ₹200 crores where is it targeted?

Raju Bista: So as I told you in detail, ₹100 crores is for a spiral unit in Gwalior and some modifications in cold rolling was well as an 8-inch mill in Bahadurgarh. Apart from this we have three big projects, once is in Hindupur which is a plant near Bangalore, where we plan to set up a large-dia pipe unit. Its involves capex of around ₹75 crores and because of this the capacity will increase by 1 lakh tons annually. Similarly in Anjar also we will set up a LDP pipe unit, which will also involve capex of around ₹75 crores and similar capacity will also increase there.

So for third capex, the land acquisition work is almost completed in Maharashtra. A new unit is coming near Bombay which will involve capex of around ₹250 crores.

Naveen Baid: And this is for next year, the Maharashtra project?

Raju Bista: The impact of all these three capex will come in the balance sheet in FY26 only, but for the remaining ₹100 crores of capex, its impact will be seen from Q3 onwards in the balance sheet.

Naveen Baid: And there is no capex in the LCD division lighting and consumer division?

Raju Bista: In lighting, our capacity is enough and in PLI we have invested around ₹25 crores. Next year we will not need any more capex. And this is also our strength that we have converted a lot of our capacity of CFL and batten tube lights to smart lighting and LED lighting and ramped up our production. So if you look ahead, after our investment in steel, our capacity is increasing by almost 50%. There is not much capex and the cash generation in the company is good. So, I would say that overall it is a good thing for the investors. In short, it is beneficial for them.

Naveen Baid: And this ₹500 crores of capex is going to be funded entirely from internal accruals?

Raju Bista: Yes, internal accruals because we already have a cash surplus of ₹160 crores. So are keeping the money in the bank as FD.

Naveen Baid: Okay sir. Thank you.

Moderator: Thank you. The next question is from the line of Jatin Damania from SVAN Investments. Please go ahead.

Jatin Damania: Thank you for the opportunity and congrats on a good set of numbers. Sir, when you are doing a capex of ₹500 crores, somewhere at the end of 2026 apart from Maharashtra, our capacity which is around 1.2 million ton currently will become how much?

Raju Bista: That will be around 19 lakh tons. Maharashtra has a capacity of around 3.5 lakh tons.

Jatin Damania: Maharashtra has a capacity of 3.5 lakh tons. So, it will be around 15.5 lakh tons?

Raju Bista: Yes.

Jatin Damania: So in FY26 the benefit should come in FY27?

Raju Bista: Yes.

Jatin Damania: And Maharashtra by when it will get ramp up?

Raju Bista: In FY26 Q3 and Q4 because it is a Greenfield project and the technology is imported from abroad. So in FY26 it should be commercialised around Q3 and Q4.

Jatin Damania: In your opening remarks you said that you have increased the value-added capacity because of which our EBITDA per ton on steel business has come close to ₹6,000 and we have an order book of ₹600 crores which is largely oil and gas. So do we believe that this ₹6,000 will remain continued given the current decline in the steel prices?

Raju Bista: This will remain. There is no impact of price erosion in this. Secondly we already generate 46% of total sales in value-added products which is a higher margin product. So after all this capacity our value-added product's capacity is about 70% that is our target. And when I talk about value-added products, the difference ₹5,000 versus ₹10,000. So overall the contribution of 46% of these products will increase to 70%. So gradually this ₹6,000 per ton EBITDA will go up to ₹6,500, ₹7,500, ₹8,000 in the coming time.

Jatin Damania: In FY25 If we assume ₹6,000 and as far as you said you are seeing in steel business a volume growth of 12 to 15 throughout the year. So you can get an EBITDA of ₹525 crores, ₹550 and in lighting it is ₹180 crores. So are we assuming that we are seeing as a company an EBITDA of ₹720 crores, ₹750 crores for the full year?

Raju Bista: Our target for this year is around ₹675 crores to ₹700 crores on an annual basis and there has been a slight concern over the last two, three months about the impact of price erosion. How long will it last? I feel that steel prices are at their lowest level in the last 4 years, 5 years. So, that is one reason. Secondly, globally there is a slight uncertainty in these days in which freight charges have increased by almost 4 times.

So there are a few challenges, but we feel that India's growth story is intact and the focus of the government on capital expenditure is as it is and because of this I feel that it will not have such an impact on India. Despite this, we expect to generate an EBITDA of ₹675 crores to ₹700 crores on an annual basis.

Jatin Damania: ₹675 crores to ₹700 crores and we will do more than that next year. So if we look at the 2-year capex or EBITDA generation, we have an EBITDA of ₹1400 crores to ₹1500 crores over next 2 years and we are doing ₹500 crores for capex. So incremental cash flows will remain in our book to a large extent. It will probably not be rewarding to shareholders because the return ratios will be reduced and the cash will remain in the book?

Raju Bista: No, what will we do by keeping the cash in the company. We will return it to shareholders and you keep calculating how much add-on is there in every quarter, but don't worry. What will we do with that money by generating cash? That is the money of the shareholder whether it is the promoter or you people. That is your money, that is your investment return.

Jatin Damania: So we can expect that in the coming time this quarter-on-quarter dividend will also increase?

Raju Bista: Absolutely it will definitely increase. And we will also keep your words in the board that we should get interim dividend and overall dividend should be good for the year.

Jatin Damania: Sir, in the lighting business, we said that there is an EBITDA of ₹180 crores. Can there be any risk in that? Because definitely, the general lighting price which you said is correct. And all the other players are also saying. So, more or less, is this ₹180 crores acceptable or can there be some risk here?

Raju Bista: Our Surya Roshni's lighting business is a risk-free business. Take out our track record of the last 5 years and compare it with the peers. There was so much volatility in the market. Despite that, whether it is COVID, whether it is price erosion it should have had a bigger impact on us because the sales of our conventional products were the highest for us and Philips. Our stake was high. Despite that in the last 5 years, we have made continuous improvements. I am also happy to say that in Q1, our EBITDA margin was 9% which will increase to 10.10% in the entire year.

Jatin Damania: Great Sir. Sir, one last question. As you said, the steel price erosion can have an impact. If we see in Q2, the price has come down from ₹4 to ₹5. So, we have a high cost inventory somewhere. Is it that we will have to take inventory loss in our books in Q2?

Raju Bista: We will have to take something because our business model like export, oil and gas segment, some spiral these are our fixed price products. We will get help in the margins. Some of the regular trade products that we sell will have an impact on price erosion.

Jatin Damania: So, how much inventory will be in our book? High cost inventory?

Raju Bista: We have an inventory of around 90,000 tons to 1,00,000 tons at any moment. In that, about 40% of trade and other segments are their material. So, around 40,000 tons.

Jatin Damania: So, the correction at 40,000 tons will have an impact.

Raju Bista: Yes, but there will be some improvement in 60,000 tons.

Jatin Damania: Okay, sir. Thank you.

Moderator: Thank you. The next question is from the line of Shweta Dikshit from Systematix Group. Please go ahead.

Shweta Dikshit: Sir, will you highlight the things that you had said that from the fourth quarter there will be incremental volume of 50,000 tons? Can you repeat that? Which projects will be commissioned incrementally?

Raju Bista: I told you that in the Bahadurgarh unit there is a cold rolling and a ERW mill. By combining both, the quantity an annual basis will improve by 50,000tons . Similarly, on an annual basis capacity enhancement by 60,000 tons is taking place - a spiral plant is being built in Gwalior. In these two facilities that facility will come in Q3 for operation. So, the full impact of 1,10,000 tons will be seen next year but from Q3 it will have an impact of 1,10,000 tons.

Moderator: Thank you. The next question is from the line of Anand Mundra from Soar Wealth. Please go ahead.

Anand Mundra: Sir, Namaskar. Sir, you talked about giving dividend. Bu Now, the rules are changing from 1st October and tax will be more on buyback. So before that, if you think that is appropriate, you can propose.

Because sir, you have already made a lot of buy-back. And after the rule of 1st October doing buy-back will not be good for the investor and the promoter itself both. This is my request to you, sir. Second sir, can I get the break up of balance sheet in both the business in lighting and within lighting also in consumer durable, how many debtor days, inventory days and separate steel business. What will happen to that, both are different business structures, so to analyze both, we need a different set of parameters.

Raju Bista: Can you repeat this question?

Anand Mundra: Sir, how much debtors and inventory are there in both the business segments? In lighting and steel. And within lighting also, you have two lighting and conventional, so I will consider that as one group. And if consumer is durable?

Raju Bista: In lighting, we have an inventory of 97 days. Sorry, 87 days. In steel division, 41 days. So, if we see the whole company, it is 50 days.

Anand Mundra: Okay. And sir, debtors?

Raju Bista: Debtors have 80 days in lighting business because as I told you professional lighting payment is different from trade. In trade, if it is 30 days and then in professional lighting it could two months, three months, in some case it can be four months also. Because of this lighting has debtor days of 80 days. In steel division debtor days are at 27. Company as a whole it comes to 38 days.

Anand Mundra: Okay. Sir, there was one more request. You gave the answer last time that the board will decide on the demerger of the business separately. What is your thought on whether the demerger should be done or not?

Raju Bista: A strong case is being made. I fully agree with you. Both the business segments are performing well. Earlier our team was very common. Now our exclusive team with its own CEO is operating their business. If we see, both our segments are working separately. But this call is such that this board has to decide and I hope that at the right time the board will take a decision about it.

Anand Mundra: Okay, understood sir. And sir, in consumer business, you have launched many products like fan is very big segment, consumer durabile kitchen appliances. This is a huge opportunity and you are debt free also. How much do you manufacture in-house and how much do you outsource?

Raju Bista: Our strength is our 2 lakh outlets. The electrical outlets in the country, 80% of them are electrical outlets. Surya is a brand and we already have entery in the electrical outlet. So, when we launch any product related to electrical, we feel that we perform well in it. And that is why gradually we introduced appliances, kitchen appliances, fan division in product category. Gradually, when we started getting our mastery and volume, we started thinking about making in-house products. So, we enhanced our capacity in-house.

This time also I had said that in this quarter also we have introduced a Monoblock Pump it is a household pump, we have introduced whose market size overall is ₹1,000 crores in India. And since last we introduced from this month only, we have 9 months in hand. We will reach ₹100 crores sales within 2 years. This year we will get revenue of ₹25 crores, from there next year ₹50 crores-₹60 crores and in the third year, we will reach ₹100 crores revenue. That is 10% of the overall market size. Similarly, our people are working on wire and MCB. So, we have not taken permission from the board yet. But our team is working on the product segment at a very advanced stage. So, this is a plus point for us. Because you already have presence and reach in the electrical outlet. And that dealer sells other electrical products of other companies other than our product category. So, naturally, they get an additional benefit from the overall turnover, discount, and work with Surya. And they also get an advantage.

Anand Mundra: Sir, will you manufacture the Surya Power Pump yourself or will you get it made from somewhere else?

Raju Bista: We are outsourcing now. And our policy is absolutely fixed in this. We launch any product category, first we develop a vendor. If the vendor is already at a benchmark or is working with a company of our level. So, we validate and do a quality team inspection. Then we make the product in front of us and sell it in the market for some time. And as soon as we feel that we have reached a certain volume level.

Because a little scale is required for manufacturing. As soon as that volume and scale comes, then we start manufacturing. So, I think even today in the lighting category, around 75% to 80% of our in-house manufacturing is our strength. Our buying power is also good. Our engineering side is also very strong. As a result, the LED product that used to give 13% replacement in the market. And most of the time it was an outsourced product. Today it has reduced to 3%. And its impact is that we save around ₹25 crores to ₹30 crores annually.

Anand Mundra: And sir, will this mobile pump be sold on the same channel where your other appliances are sold?

Raju Bista: Yes, it is sold on the same channel.

Anand Mundra: And sir, how much gross block do you have in the appliances company, in the fixed assets?

Raju Bista: No, we don't have any investment in this.

Anand Mundra: Sir you are doing manufacturing, right?

Raju Bista: Not in appliances No, most of the products in the appliances are outsourced. We have just started in-house manufacturing of our fan segment. We have an investment of ₹25 crores via PLI. So, for the next year, in lighting we will not be required to invest more than ₹5 crores, as we already invested ₹20 crores via PLI.

Anand Mundra: And sir, what is the channel medium of the sales of the lighting and consumer division of ₹1700-₹1800 crores? What is the channel medium? Is all is sold to via the medium of dealers? Or is there any online or modern trade?

Raju Bista: No. I will tell you a little segment-wise about the lighting division.

Anand Mundra: Sir, add appliances to the lighting division.

Raju Bista: The overall distribution is 70% of the overall lighting division through the channel. In which there is consumer lighting and about 18% are fan and appliances. The remaining 47% is consumer lighting. And the remaining B2B is 27%. Basically, the professional lighting that I was talking about is about 27%. And export is about 3%. So, in this way, 70%, 27% is B2B and export is about 3% - that's how it becomes100%.

Anand Mundra: Sir, you have not explored the channel of modern trade and online yet. Like D-Mart…

Raju Bista: It is there, but it is not that big. It is like a token. Because many times we have a little problem in it. If we give the same product category through online modern trade, then it has a negative impact on the trade channels. So, thus we have to do new packaging, new products, new wattage. So, it is a token size only. It is not that big. So, we get money by giving 30 days credit through our trade. Our focus is more on that.

Anand Mundra: Sir, can you give a little break-up of your 27% B2B? What type of projects are they?

Raju Bista: See, in 27%, we have about 23% that goes directly through the channel. But it goes to these projects. In the big projects, commercial projects, airport, railwayit goes through distribution, through the channel. We do not sell directly. And B2G, our government supply was around 2% last year. There is nothing this year. We do not have a big focus directly.

We do branding for a couple of companies. Because we have over overcapacity capacity of certain components. And we sell some components to some companies in India. It is around 5%. So, thus all this comes around 27%.

Anand Mundra: Sir, one last question. It has been seen that consumer business with size, EBITDA margin increases. So, your experience would be that if ₹1700 crores becomes ₹2500 crores, then EBITDA margin can increase a lot. Will it increase?

Raju Bista: It will increase. In the last five years, we have been very tough in the lighting division. The unorganized sector was very dominant. Good companies came and disappeared. But despite that, in such a volatility, we have been able to survive. Because we focused on our core strength, optimizing the cost, & enhancing the capacity. And then giving the same products in the market, which meets the needs of the consumer.

And our sales come around 54%-55% from tier-3 cities. Our focus is on tier-2 and tier-3 cities from the beginning. And because of this, our sales also come more. So out of the overall 10% EBITDA margin, 12.5%. comes from trade There are two-three products in it. Like the fan, which has just been launched. Although, the margin of the fan is also a little less. So, EBITDA margin is around 5-5.5%. We are new to appliances. So, we keep the price 2%-3% lower than others. Because we are new to that category. The EBITDA margin comes around 8.5%. And in the OEM sales, which I was telling you, which contributes 5% as a component, or do some branding for others. In that, the margin is always on the lower side, around 5%. Otherwise, the EBITDA margin is around 12.5%. And going forward, our focus area is still the same. And the market has also stabilized.

Now, the market segment has shifted towards the organized from the unorganized. The players who are serious in real lighting, I think they should get more opportunities.

Anand Mundra: Thank you, sir.

Raju Bista: Thank you.

Moderator: Thank you. The next question is from the line of Raj Mehta, from Raj Mehta Associates. Please go ahead.

Raj Mehta: Thank you, sir, for giving me the opportunity. Sir, I have two-three questions. In the current year, you had given projections, that according to what you are thinking, EBITDA margin, EBITDA in totality, you had told. And from next year, many of your capacity enhancements will be live, for which will be benefited in the full year. So, next year onwards, what is your target in the steel business and in the consumer business? In both the businesses, LED and consumer business, what are your projections for the future? How are you expecting to grow? That was my first question.

Raju Bista: I heard it. Should I say it now or is there anything else?

Raj Mehta: No, you tell me first. I will ask the next question later.

Raju Bista: Yes. In the next two years, EBITDA margin for lighting will be 12%. Originally, when we used to deal only in CFL, EBITDA marign used to be around 13%-14% seven-eight years ago. But due to a lot of changes, we went back to 8%. Now, gradually we have come to 10% over the last two years. So, EBITDA margin will be 12% in the lighting division. And in the next two years, the steel division will be around ₹7,000 per ton. Now, it is at the level of ₹6,000, ₹6,500 and ₹7,000. But our ultimate target is that after the full-fledged product comes, our EBITDA/ton should be around ₹8,000.

Raj Mehta: So, in total, your EBITDA growth can be more than 20% for the next 2 years?

Raju Bista: Yes, it can be. In Q1, we will see growth around 36%.

Raj Mehta: Okay. In Q1, even in the last year quarter, we will compare it with the March quarter. So, our margin was a little down. But that is due to elections….

Raju Bista: So, in our business Q3-Q4 is the peak season time. And this is the lean period. So, it is beneficial to compare apple-to-apple. Because at this time, the days are long, so the lights burn less for hours. The second thing is that it rains. Now, it has started raining since July. So, now the sales will increase because the bulbs will burst due to the rain. Then the sales will increase. So, our market dynamic is a little different.

Raj Mehta: Sir, my second question is that during the elections, the government capex was halted. And the private capex is also not increasing so fast. So, in the future outlook, about the on-ground situation, can you see the revival of the private capex. If the government capex slows down, then we will get a growth engine from the private capex. In steel business?

Raju Bista: Is this question for the MP or the MD? No. It is like this. Look, India's overall economy is at the level of growth. We have been seeing this for many years. As a result, our budget of ₹15 lakh crores has increased to ₹50 lakh crores today. And the second is that India has the fastest growing economy.

Third, we had a very big strength, 140 lakh crores Indians. And more than 20 crores people have come above the poverty line. And the government is also doing a capital expenditure of ₹11.1 lakh crores. In the last 4 years, I think there will be an investment of ₹45 lakh crores. And it is also visible. And I don't think that only the Indian government will do all the work in India.

And the Indian government, whether it is by reducing corporate tax or by making the process of foreign investment more transparent and fast, and a dedicated team works on it, the foreign investment that comes, then the government has its own. Because when the government of any country invests, when the government spends capital, then it becomes a very big thing for the economy. And India is also encouraging private partnership. That's why you...

Raj Mehta: On this basis, our domestic...

Raju Bista: If there is export, import should be reduced, and there is improvement in our innovation and technology, and 5 crores young people have jobs, I think all these things are integrated with each other. And I think the next 15-20 years are for India.

Raj Mehta: Then, sir, our domestic business should be more than the export business, right?

Raju Bista: It is the same for us. Our overall export is... If you look at our steel division, it is around 17%-18% export. The rest is 82%-83% domestic. And this is the strength of Surya Roshni.

Raj Mehta: And our growth and yield will come mainly from domestic, right, sir?

Raju Bista: It will come from domestic only, and that too from our trade . And now we have focused on the project segment as the government is pumping more money there.

Raj Mehta: Okay. And sir, for the LED business, as our margin used to be good before, and due to Chinese imports, due to all this, our margin has eroded. And now you also told that 30% erosion was there, price erosion. So, according to you, according to your understanding, how do you see the bottom of the pricing in this industry in the future? Because with the PLI scheme, if I remove the benefit of your PLI scheme, then you will also go to a loss. If that PLI scheme was not there.

Because the government is pushing. The price of Chinese products is going down, so the government is pushing local production. When the PLI scheme will be closed after 3 years, then to bring stability to your price erosion, or is there any visibility that our product is getting better than Chinese products, and people are accepting to give a little more money to it?

Raju Bista: No, our product is 10x better than Chinese products. From an aesthetic point of view, from a quality point of view, and from a service point of view. Because a Chinese product is sold, but the service is not available again. Secondly, what you said that if you remove the impact of the PLI, then you will get a minus, this is completely wrong. Because last year we had EBITDA of around ₹150 crores. This year we are talking about ₹180 crores.

In a year, only ₹2 crores is the impact on account of the PLI. So, the production link incentive is very nominal. In 5 years, there is only an investment of ₹25 crores, and annually we get an advantage of ₹2 crores. And the third thing you said, see the market has matured a lot in the last few years, but still there is a scope for technology and innovation, that one day, by changing something technologically, the price will go down, and I believe that if the price goes down, there is scope for innovation. So, ultimately, the consumer and the company will benefit. But now, there is not much chance of price erosion.

Our 29% price erosion, we also made some modifications in the scheme. Because in our scheme, more goods were going in, the scheme was more, we made it less, there is also an impact of that. I think that by going ahead, the price erosion level has come to that level, there is not much scope left. If someone does more engineering than this, then the bulb will not burn.

Raj Mehta: Okay. And sir, the last question was, the new product that you were telling, the water pump, where the market size is ₹1,000 crores, so this pump will be a value-added product, and you also told us about the projections in con-call, how you want to scale it up. So, what are the innovative products that you are thinking of bringing in the market, where you are thinking of expanding the margin, as it will come more via the innovative products, as compared to old products?

Raju Bista: See, in our trade, there are downlighters and batons, because in today's houses, you will see that first there was a holder, then there was a bulb, then then came tube light, now people don't buy holders, now they buy downlighters and batons. So, that is a focus area in our trade, and in downlighters and batons, many segments are extreme. Similarly, in downlighters and batons, our volume growth is still around 20%.

So, our second segment is professional lighting, which you can also call a project. So, in that, our commercial segment is quite big, then there is industrial, there is outdoor, in which street lights are installed. So, our focus is on that, and in the last year, I think we had a growth of around 18%-20%, and this year also, in quarter 1, there was a growth of 18%.

In that segment, as compared to our peers, we were very small, we were only one tenth in size, because generally I used to see, trade versus professional used to be 50%-50%, the contribution from professional was only 20% compared to trade, now it has gradually increased, and in the coming time, I think there will be more growth prospects, and that is our focus area, and the margins in that is also good.

Raj Mehta: Okay. And sir, in any business, what do you see as your risk going forward, in the future, which will hamper your growth a little, maybe EBITDA, which you were thinking today, that we are going to earn this year, may delayed for the next 6 months, so what are the reasons you see, because of which growth can be hampered in the future?

Raju Bista: One can think of anything, if Bangladesh happened the other day , don't know what will happen tomorrow, that remains a global uncertainty. But this was 50 years ago, maybe it will be 50 years later, we can't do anything about that. But internally in India, if I tell you, there is a little price erosion of the steel segment, that is a little concern, but we will make up for it with other things. Now that you have asked, I am telling you. The second is, the unorganized sector is still a very large segment, in the lighting division, but if we don't take it as a challenge, as it can also become an opportunity for us, our team is also working on that. So there is a little ups and downs, but we have still learned that, no matter what the situation is, the goods we have to sell, we don't have much of a problem with that. There is an impact in a month or so, but overall on quarter or annual basis, we improve ourselves.

Raj Mehta: And sir, one last question, the platform of SG Mart, on which they are integrating for steel, are we going to get entry there, or the main competitor, they have not opened up to other competitors, to sell their steel production pipes, do you have any input on that?

Raju Bista: We buy HR Coil, from those who manufacture HR Coil, and we directly purchase with them, we have an annual MOU, and I think if some trader buys in between, and sells it to us - I don't think it will be very reliable, or it will be cheap. I have a principle, I want cheap, but at the same time, I want high quality products. So, in steel, even if the thickness is a little higher or lower, then it becomes a matter of crores.

And we are very extra careful in this, our whole team, the manufacturing unit, is 24x7, and that is why today, this Prakash Pipe, if you go to Karnataka, from big companies, from 15% to 3%, to 5%, we get the price difference. Just because of our service, and the 50 years of trust we have with the farmers, with the common people, that is why we get a premium today. And in the rest of the market, if someone gives a high quality product at a cheaper rate, I will not refuse anyone.

Raj Mehta: Okay sir, thank you and all the best. And if possible, please discuss demerger with the board.

Raju Bista: Okay sir.

Raj Mehta: Thank you.

Moderator: Thank you. Ladies and gentlemen, that was the last question for today. I would now like to hand the conference over to Mr. B.B. Singal for closing comments.

B.B. Singal: Thank you everyone for joining us today on this earnings call. We appreciate your interest in Surya Roshni Limited. I sincerely, once again, thanks our MD sir, Executive Director, and CEO 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. Thanks once again. Thanks.

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