ArihantCapital Generating Wealth

Stock Idea
4th June 2026

SURYA ROSHNI LTD

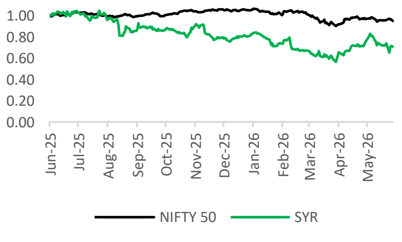
CMP: INR 250
View : BUY
TP : INR 355
Upside: 42%

Stock Info	
BSE	500336
NSE	SURYAROSNI
Bloomberg	SYR:IN
Sector	Iron & Steel Products
Face Value (INR)	5
Equity Capital (INR Mn)	109
Mkt Cap (INR Mn)	54,160
52w H/L (INR)	359/187
Avg Daily Vol (in 000')	576

Shareholding Pattern % *(As on March, 2026)*	
Promoters	63.00
FII	4.68
DII	2.1
Public & Others	30.21

Stock Performance (%)	1m	3m	12m
SuryaRoshni	-6.8	1.88	-24.9
Nifty	-2.9	-6.7	-5.3

SYR Vs Nifty50



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Founded in 1973, Surya Roshni Ltd is one of India's leading manufacturing companies with a strong presence in steel pipes, lighting products, consumer durables, and PVC pipes. The company began as a steel tube manufacturer and later diversified into lighting in 1984, becoming a major player in both sectors. Surya Roshni Ltd has evolved from a steel tube manufacturer into a diversified industrial conglomerate.

Investment Rationale

Margin upside to be an engine for re-rating: FY26 was a margin trough, not a structural reset. Consolidated EBITDA margin compressed to 7.2% (from 7.8% in FY25), but the path within the year was sharply V-shaped 4.4% in Q1FY26, 6.4% in Q2, 7.7% in Q3 and 7.9% in Q4. The depressants were largely one-off: i) An ~INR 500/tonne steel inventory loss on price corrections, ii) export disruption from the Middle-East crisis and iii) An internal SAP implementation that management explicitly flagged as hurting the steel division.
With steel EBITDA/tonne at INR 4,810 in Q3FY26 versus a guided normalised band of INR 5,000-5,200, the gap to mid-cycle profitability is both quantified and in our view, recoverable. We model consolidated EBITDA margin rebuilding to ~8.1% in FY27E and ~8.6% in FY28E and this margin lever, layered on volume, is what carries earnings (and the price objective) materially higher.

Volume ramp adds operating leverage on topline: Management guides to ~11 lakh tonnes of steel volume in FY27 (mid-to-high-teens growth over an estimated ~9.5 lakh tonnes in FY26), led by hollow sections (record quarterly sales), spiral and API pipes. A landmark here: Surya became the first in India to make API 5CT casing pipes via ERW technology and won an ONGC order a high-realisation, high-margin product that structurally lifts the VAP mix (already ~43% of volume).
An INR 1,000 cr order book underpins H1FY27, which management expects to be the strongest-ever half for VAP. On a largely fixed conversion-cost base, this volume-plus-mix combination is the classic operating-leverage setup.

Consumer business offers a complementary growth driver: The Lighting & Consumer Durables segment continues to demonstrate steady growth and margin resilience. Segment revenue increased ~7% YoY in FY26 to INR 1,809 Cr, while Q4FY26 revenue grew ~9% YoY to INR 501 Cr with EBITDA margins of ~8.8%. Demand remained healthy across LED lighting, professional lighting and consumer appliances, while newer categories such as wires & cables, PVC pipes and pumps are gradually scaling up. As these businesses gain scale and improve profitability, we expect the segment to contribute a larger share of consolidated earnings and support overall margin expansion.

Robust balance sheet, high returns, real cash flow: Surya Roshni is effectively debt-free with ~INR 340 cr net cash, RoCE in the ~17-20% band, RoE ~13% (with a 5-year average near 14.7% and historical peaks above 20% RoCE), a tightened net working-capital cycle (~61 days) and a track record of dividends (INR 5.0/share in FY26) and a 1:1 bonus (Jan-2025). The downside is well-supported even if the cycle stays soft, and self-funded capex means growth needs no external capital.

Demerger optionality free upside: Media reports in May 2026 indicated a potential separation of the Lighting & Consumer Durables and Steel Pipes & Strips businesses into two listed entities. While the company has not announced any formal proposal, such a move could enhance value discovery given the distinct operating characteristics, margin profiles and capital requirements of the two businesses. Our SOTP valuation suggests an implied value of over INR 385 per share. However, we do not incorporate any benefit from a potential demerger in our base-case assumptions and view it as a potential medium-term catalyst.

Margin Upside - The Earnings Engine (Deep Dive)
FY26 profitability likely represents the trough of the current cycle. Consolidated EBITDA margins improved sequentially from 4.4% in Q1FY26 to 7.9% in Q4FY26, indicating a gradual normalization in operating performance. While FY26 EBITDA margins stood at 7.2%, margins have largely recovered to FY25 levels by the end of the year. With the impact of inventory losses, export disruptions and SAP-related implementation challenges easing, we expect margins to improve further over FY27-28E.

Consol margin path	Q1FY26	Q2FY26	Q3FY26	Q4FY26
EBITDA margin	4.4%	6.4%	7.7%	7.9%
Direction	trough	recover	recover	recover

FY25 reference: full-year EBITDA margin ~7.8%; Q4FY25 ~9.4%. Source: company filings / quarterly disclosures

Steel: the EBITDA/tonne bridge
Steel is ~76% of revenue, so its per-tonne economics drive the consolidated number. EBITDA/tonne fell to INR 4,810 in Q3FY26 (from INR 5,163 a year earlier), squeezed by the ~INR 500/tonne inventory loss. Management's stated normalised range is Rs 5,000-5,200/tonne. Closing even half that gap on ~11 lakh tonnes is worth ~INR 20-40 cr of incremental EBITDA before any mix benefit; reaching the bottom of the guided band adds materially more.

Steel EBITDA/tonne (INR)	Q3FY25	Q3FY26	Guide	FY27E
EBITDA per tonne	5,163	4,810	5,000-5,200	~4,650
Steel volume (lakh tonnes)	2.37	2.37	-	~11.0 (FY)

Indicative quarterly figure. FY27E is a conservative Arihant estimate set below the guided normalised band to leave room for execution.
Source: company concall/presentation.

The four margin levers, stacked. We bridge the consolidated EBITDA margin from 7.2% (FY26) toward ~8.6% (FY28E) as follows:

• **One-off reversal (~+40 bps): i)** Steel inventory loss, Middle-East export disruption and SAP-transition drag do not recur.

• **VAP mix richening (~+30 bps):** API 5CT/OCTG, spiral, large-dia (24-inch) export pipes and hollow sections carry higher EBITDA/tonne than commodity ERW; VAP already ~43% of volume and rising.

• **Operating leverage (~+30 bps):** ~11 lakh tonnes spread over a largely fixed conversion base improves absorption.

• **Lighting mix-up (~+40 bps):** higher-margin consumer lighting/appliances plus the wires & cables ramp lift the blended margin as lighting grows faster than steel.

<u>**Segment Deep Dive**</u>

Steel Pipes & Strips (FY26 revenue INR 5,731 cr, ~76% of mix). India's largest GI-pipe maker and largest ERW-pipe exporter (~60% export share). The growth engine is value-added: hollow sections (structural) at record quarterly volume, spiral and API pipes for oil/gas/water, and an export book widening into the UK, North America and Europe (recent US ERW/OCTG orders ~INR 86 cr for June-2026 execution). The API 5CT-via-ERW first and ONGC order, plus 24-inch large-dia capability for the US/Canada, move the mix structurally up the value curve. Cyclicality in steel prices remains the swing factor, but the franchise, scale and export reach are intact.

Lighting & Consumer Durables (FY26 revenue INR 1,809 cr, ~24% of mix). Q4FY26 segment EBITDA was ~INR 44 cr on INR 501 cr revenue (~8.8% margin), with broad momentum across LED bulbs, battens, downlighters, appliances and professional lighting, and a record sales month in March-2026. Newer lines — wires & cables, PVC pipes, pumps extend the runway; wires & cables, after a delayed FY26 start, has normalised. This is the part of Surya that screens like a consumer-electricals company yet is valued like a steel pipe-maker inside the consolidated entity — the heart of the SOTP argument.

Q4FY26 Financial Performance

Q4FY26 revenue was INR 2,163 cr (broadly flat YoY, +12% QoQ); EBITDA INR 170 cr at 7.9% (vs INR 211 cr / 9.8% YoY); PAT INR 98 cr (+23% QoQ, -24% YoY). The sequential improvement across revenue, margin and profit is the relevant signal into FY27.

INR cr	Q4FY26	Q4FY25	YoY	Q3FY26
Revenue	2,163	2,146	+0.8%	1,927
EBITDA	170	211	-19.4%	148
EBITDA margin	7.9%	9.8%	-190 bps	7.7%
PAT	98	130	-24.4%	80

Segment FY26: Steel Pipes & Strips INR 5,731 cr (~76%); Lighting & Consumer Durables INR 1,809 cr (~24%, +7% YoY). Source: company filings, Q4FY26 release & presentation, earnings call (25-May-2026).

Projections (Arihant Estimates — Illustrative)

Estimates embed the margin bridge above: revenue growth in the low-double-digits on the steel volume ramp and lighting scale-up, and consolidated EBITDA margin recovering to ~8.1% (FY27E) and ~8.6% (FY28E). For context, FY27E PAT of ~INR 410 cr is only ~18% above the FY25 pre-trough level (~INR 348 cr) recovery plus growth, not a heroic forecast. FY27E/FY28E are basic estimates, we are working on a detailed financial model.

INR cr unless stated	FY25A	FY26A	FY27E	FY28E
Revenue	7,436	7,540	8,450	9,500
Growth (%)	-	+1.4%	+12.1%	+12.4%
EBITDA	~580	541	684	819
EBITDA margin	7.8%	7.2%	8.1%	8.6%
PAT	~348	286	410	504
EPS (Rs)	16.0	13.1	18.9	23.2
P/E @ INR 250 (x)	15.6	19.1	13.2	10.8
RoE (approx.)	~14%	~12%	~14%	~15%

FY25/FY26 per company filings (FY25 EBITDA approximate). FY27E/FY28E are basic estimates, we are working on a detailed financial model.

Valuation, Peers & Sum-of-the-Parts

Price objective INR 355 (BUY). We value Surya at ~19x FY27E EPS of INR 18.9, yielding INR 355 (~42% upside). The multiple is undemanding: pipe-sector peers trade at a ~25x median P/E and structural-tube leader APL Apollo at ~43-51x P/E / ~30x EV/EBITDA, while consumer-electricals/lighting peers command well above 25x P/E. A debt-free, margin-recovering market leader with demerger optionality warrants a re-rating from its current ~12.5x FY27E. Note INR 355 broadly retests the 52-week high (INR 359) - A recovery to prior levels rather than a fresh peak.

Peer anchor	P/E (x)	EV/EBITDA (x)
APL Apollo (structural tubes)	~43-51	~30
Pipe sector median	~25	-
Lighting/consumer peers	25-55	18-35
Surya Roshni (FY26)	17.9	~8-9*

*Implied blended EV/EBITDA. Peer multiples as on late-May 2026 per public market data; shown as context, not a target.

Sum-Of-The-Parts - INR 385+ on a demerger. On FY27E segment EBITDA (Steel ~INR 500 cr; Lighting ~INR 185 cr), valuing steel at a deep discount to APL Apollo and lighting at a steep discount to consumer peers still yields more than the whole:

SOTP (FY27E, illustrative)	Multiple	Implied EV (INR cr)
Lighting & Cons. Durables	18-20x EBITDA	3,330-3,700
Steel Pipes & Strips	9-10x EBITDA	4,500-5,000
Add: Net cash		~340
Implied equity value		8,170-9,040
Implied value / share (Rs)		~375-415

SOTP is illustrative, contingent on a demerger the company has not confirmed, and sensitive to the EBITDA bases and exit multiples. It corroborates the upside and frames the INR 385+ bull case; the INR 355 objective stands on consolidated earnings alone.

Catalysts & What to Watch

Steel EBITDA/tonne printing back toward the INR 5,000-5,200 guided band — the single most important data point each quarter.
Quarterly steel volume tracking toward the ~11 lakh-tonne FY27 run-rate; H1FY27 VAP being the strongest-ever half as guided.
Conversion of the INR 1,000 cr order book and new US/Europe/UK export and API/OCTG wins (incl. ONGC) into realisations.
Lighting segment margin trending to double digits and the wires & cables / PVC / pumps ramp.
Any formal board action on the demerger - the SOTP re-rating trigger.

Key Risks

Steel-price volatility: Renewed inventory losses would delay the EBITDA/tonne recovery that anchors our margin thesis.

Export & geopolitical exposure: US/Europe/UK demand and trade/freight conditions drive a meaningful slice of growth and realisations.

Margin-recovery slippage: the price objective leans on ~80-140 bps of margin expansion; if mix or leverage disappoint, EPS and the multiple both compress.

Demerger does not materialise: the SOTP upside is unconfirmed; absent a scheme the conglomerate discount persists.

Lighting competition: larger consumer-electricals players could cap pricing/margins in lighting and appliances.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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