Standard Surfactants Limited (SSL)

February 14, 2025

Ratings

Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	37.45	IVR BB+ / Stable (IVR Double B Plus with Stable Outlook)	-	Assigned	Simple
Short Term Bank Facilities	14.00	IVR A4+ (IVR A Four Plus)	-	Assigned	Simple
Proposed Short Term Bank Facilities	28.55	IVR A4+ (IVR A Four Plus)	-	Assigned	Simple
Total	**Rs. 80.00**	**Rupees Eighty crore only**			

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has assigned ratings of IVR BB+/Stable, IVR A4+ to the bank facilities of Standard Surfactants Limited (SSL). The ratings reflect the benefits of expansion and diversification of product portfolio, location advantage of the manufacturing plant, promoters extensive industry experience, and strong relationship with high-quality clientele. The ratings are, however, constrained by intense competition and thin profitability margins, profitability exposed to volatility in raw material prices as well as finished goods and low net worth and moderate debt coverage indicators.

Infomerics has assigned a Stable outlook based on expectation that growth in the business in the medium term will be supported by expansion in the product profile which was achieved towards the end of FY25. The anticipated revenue growth is likely to be accompanied by significant margin improvement from FY26 onwards, given the value-added nature of new products launched as compared to LABSA which was the main product of the company till recently.

Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth coupled with improvement in profitability margins
- Growth in cash accrual and prudent working capital management

Downward Factors

- Any significant decline in revenue and profit margin on a sustained basis
- Deterioration in the position of liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Expansion and diversification of product portfolio

The company's manufacturing revenues are generated largely from LABSA 96%. The capacity of LABSA plant is 12000 MTPA and situated in Madhya Pradesh. The finished product is used in making of shampoo, detergents, toothpaste, etc. The company is expanding its business as it is going to manufacture more surfactants products. SSL has started production of 2 new products in September 2024 and will start production of additional 8 new products from February 2025, to increase the revenue and profitability as these products have high profit margins than LABSA. The new surfactant products are manufactured in existing manufacturing plant with some new equipment for which new term loan of Rs. 16.25 crore was taken from bank and Rs. 7.75 crore from promoters (through equity and unsecured loans) are expected to be completed within FY25. The new products have same end users as of existing product. Hence, SSL already has well established customer base in the market for its new products. SSL can also procure raw materials from the existing suppliers for the new products.

Location advantage of the manufacturing plant

The company enjoys competitive advantage in terms of logistics due to its location in Mandideep, Raisen, in Madhya Pradesh. This is because it is able to cater to clients in North and East India at lower logistics costs when compared with peers located in West and South India. Logistics cost is a substantial cost to the customer as a significant proportion of the surfactants by volume (~50% in case of new products) comprises of water which adds to the weight of the product.

Promoters' extensive industry experience

SSL is promoted by brothers Mr. Pawan Garg and Mr. Atul Garg. Mr. Pawan Kumar Garg is the chairman and managing director of the company. Mr. Atul Kumar Garg is the whole-time director and brother of Pawan Garg. They have nearly twenty years of experience in manufacturing and marketing surfactants and allied chemicals. They are well equipped with expertise in designing marketing strategies for products. Atul Garg also has relevant experience in dealing with polymers, wax and other allied products.

Strong relationship with high-quality clientele

SSL has established strong relationships with major global and national brands like Godrej, Procter & Gamble, Hindustan Unilever, Wipro, Colgate-Palmolive, etc. The company has 15-day average debtor collection period. The presence of strong, reputed clients lowers the counterparty credit risk.

Key Rating Weaknesses

Intense competition and thin profitability margins

SSL is competing with a large number of other surfactant manufacturers, all selling the same product along with other similar products. The competitors of SSL are Godrej, Galaxy Surfactants, Arti Surfactants, etc. Till recently SSL was only manufacturing LABSA 96% which has comparatively low margin product because of which SSL has low profit margins in past three years. Although the EBITDA and PAT margins have increased to 2.31% and 1.13% respectively in FY24 as compared to 1.99% and 1.02% respectively in FY23 it is still less than the prevailing profit margins in the surfactants industry.
In order to scale up revenues and expand profitability margins SSL has started manufacturing of 2 new products in September 2024 and production of almost 8 new products will start in February 2025 in existing manufacturing plant; these new products entail higher value addition and are expected to generate higher profit margins than LABSA 96%.

Profitability exposed to volatility in raw material prices as well as finished goods

Any unfavourable change in the price of raw materials might influence profitability. The major raw material of the company is Linear Alkyl Benzene (LAB) which is imported using Letters of Credit. The price of LAB depends on petrochemical prices and crude oil prices which are very volatile in nature and prone to fluctuations based on global demand supply situations and other macro-economic factors. The operating income of SSL has witnessed ~12% CAGR growth in past three years. However, the company's overall operating income decreased to Rs. 130.99 crore in FY24 from Rs. 152.42 crore in FY23 due to decline in prices of raw materials which had to be passed on to customers thereby resulting in drop in realisations.

Low net worth and moderate debt coverage indicators

Total debt increased to Rs. 33.00 crore as on March 31, 2024, from Rs. 25.96 crore as on March 31, 2023, due to increase in term loan. The new term loan was taken to incur capex for facilitating the product expansion in SSL. The tangible net-worth was Rs. 27.42 crore as on March 31, 2024, which increased from Rs. 24.06 as on March 31, 2023. The growth in net worth is on account of accruals of profit to the reserves of the company. The leverage ratios are moderate over past three years. The overall gearing ratio remain moderate at 1.20 times and TOL/TNW was 1.63 times as on March 31, 2024. Total Debt/ EBITDA deteriorated to 10.92 times as on March 31, 2024, due to decrease in topline (8.57 times in FY23). The debt protection metrics like interest coverage and DSCR has weakened at 2.63x and 1.19x respectively as on March 31, 2024, on account of subdued operational performance.

Analytical Approach: Standalone

Applicable Criteria:

- Rating Methodology for Manufacturing Companies.
- Financial Ratios & Interpretation (Non-Financial Sector).
- Criteria for assigning Rating outlook.
- Policy on Default Recognition
- Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near term. The company is expected to earn a gross cash accrual in the range of ~Rs.7-9 crore annually as against its minimal debt repayment obligations during FY25-27. However, with ~94% average fund-based capital utilisation of the company during the past 12 months ended December 2024 indicating limited liquidity buffer. Further, the company can potentially incur capex of Rs. 50.00 crore, in future depending on the success of new products. If the capex is incurred, then the management plans to fund that by bringing in the promoter's loan which will not majorly impact the liquidity.

About the Company

Standard Surfactants Limited (SSL) was set up in 1995 to produce Linear Alkyl Benzene Sulphonic Acid 96% (LABSA 96%). The company is promoted by brothers Mr Pawan Garg and Mr Atul Garg. The capacity of LABSA plant is 12000 MTPA and it is situated in Madhya Pradesh. SSL is public limited company and listed on BSE. Along with producing LABSA 96%, the company has Indian Oil Corporation Limited (IOCL) dealership for certain polymer products such as HDPE, LLDPE, Linear LDPE and industrial waxes. SSL is a dealer for these products and earns commission on sales of these products. The company is expanding its business as they are going to manufacture a wider range of surfactant products. SSL has started with production of 2 new products in September 2024 and will start production of additional 8 new products from February 2025, to increase the revenue and margins as these products have high profit margins than LABSA.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	152.42	130.99
EBITDA	3.03	3.02
PAT	1.56	1.48
Total Debt	25.96	33.00
Tangible Net Worth	24.06	27.42
EBITDA Margin (%)	1.99	2.31

For the year ended/ As on*	31-03-2023	31-03-2024
PAT Margin (%)	1.02	1.13
Overall Gearing Ratio (x)	1.08	1.20
Interest Coverage (x)	2.51	2.63

** As per Infomerics Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in in 2021-22
	PR Date	February 14, 2025			-	-	-
1.	Term Loan	Long Term	12.25	IVR BB+/ Stable	-	-	-
2.	Term Loan-ACE	Long Term	4.00	IVR BB+/ Stable	-	-	-
3.	GECL	Long Term	1.20	IVR BB+/ Stable	-	-	-
4.	Cash Credit	Long Term	20.00	IVR BB+/ Stable	-	-	-
5.	EDFS	Short Term	4.50	IVR A4+	-	-	-
6.	Bank Guarantee	Short Term	4.75	IVR A4+	-	-	-
7.	Letter of Credit	Short Term	4.75	IVR A4+	-	-	-
8.	Proposed	Short Term	28.55	IVR A4+	-	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Term Loan	-	-	Till 2033	12.25	IVR BB+/ Stable
Term Loan-ACE	-	-	Till 2030	4.00	IVR BB+/ Stable
GECL	-	-	-	1.20	IVR BB+/ Stable
Cash Credit	-	-	-	20.00	IVR BB+/ Stable
EDFS	-	-	-	4.50	IVR A4+
Bank Guarantee	-	-	-	4.75	IVR A4+
Letter of Credit	-	-	-	4.75	IVR A4+
Proposed	-	-	-	28.55	IVR A4+

Annexure 2: Facility wise lender details
https://www.infomerics.com/admin/prfiles/Len-Standard-Surfactants-14feb25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Name of the Security		Detailed Explanation
	Financial Covenant	
	i.	
	ii.	
	Non-financial Covenant	
	i.	
	ii.	

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Name of the company/Entity	Consolidation/Combined Approach

Press Release

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com