

December 24, 2024

## Suraj Logistix Pvt. Ltd.: Ratings reaffirmed

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Term loan	71.62	55.91	[ICRA]A- (Stable); Reaffirmed
Fund-based – Cash credit	58.38	55.00	[ICRA]A- (Stable); Reaffirmed
Non-fund based limits	(15.65)	(15.65)	[ICRA]A2+; Reaffirmed
<b>Total</b>	<b>130.00</b>	<b>110.91</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating reaffirmation for Suraj Logistix Pvt. Ltd. (SLPL) factors in its healthy financial risk profile as reflected by a comfortable debt coverage metrics, despite some moderation in FY2024. The same, however, is likely to recover in FY2025 on the back of stabilisation of the newly acquired plant – Padmaja Poly Packs Private Limited (PPPPL, based in Telangana), with an installed capacity of 5,000 MT of laminated PP bags. The acquisition was completed in June 2024 with a total investment of ~Rs. 17 crore towards plant and machinery, which would support the company in business diversification as well as logistics costs for its clients in southern India. The ratings derive comfort from the longstanding experience of the promoters and SLPL's established track record in the polymer processing business. The ratings consider its reputed client profile, as well as SLPL's wide network of distributors for polyvinyl chloride (PVC) pipes and allied products, particularly across India.

The ratings, however, remain constrained by the company's moderate scale of operations, exposure to volatility in raw material prices – primarily PVC and polypropylene (PP), and working capital-intensive operations with high level of inventory requirements. SLPL's operating profit margins moderated to 5.8% in FY2024 from 7.8% in FY2023, largely driven by one-time costs on the acquisition of Padmaja unit (involving professional fees, due diligence fees, etc), along with volatility in raw material prices. Nonetheless, the margins improved to 8.5-9% in H1 FY2025 owing to stabilisation of operations in the subsidiary, lower logistics cost in catering to southern India customers and benefit of higher volume-based discounts in sourcing of raw material. The ratings factor in the intense competition inherent in the industry due to the presence of many organised and unorganised players, particularly in the PVC and PP bags segment, which limits its pricing flexibility. Besides, SLPL is exposed to the inherent cyclical nature in the cement industry, which accounts for a predominant share of revenues derived from the PP and laminated polypropylene (LPP) bags segment. SLPL has high inventory requirements, which exposes it to the risk of volatility in commodity prices. Hence, its profitability remains susceptible to volatility to that extent. Moreover, the return indicators remain sensitive to timely receipt of subsidy from the Government.

The Stable outlook on the rating reflects ICRA's opinion that SLPL is likely to sustain its operating metrics, supported by its track record in the polymer processing business, and its reputed clientele. Further, the company's debt coverage metrics are expected to remain comfortable and commensurate with the rating level.

## Key rating drivers and their description

### Credit strengths

**Experienced promoters coupled with proven track record of operations** – The company is promoted by the Jamshedpur-based Khemani family, which has more than two decades of experience in manufacturing PVC pipes and allied products, and PP bags. SLPL's established track record of operations in the polymer processing business has enabled it to establish relationships with the customers and suppliers. Its day-to-day operations are looked after by Mr. Deepak Khemani and Mr. Prakash Kumar Khemani, along with a team of experienced professionals. The management has recently diversified its manufacturing base in Southern India with acquisition of Padmaja Poly Packs Private Limited (PPPPL, based in Telangana), with an installed capacity of 5,000 MT of laminated PP bags. The acquisition was completed in June 2024 with a total investment of ~Rs. 17 crore towards the plant and machinery.

**Wide distribution network** – The company has a reputed client base for selling PP and laminated PP bags, which includes Dalmia Cement (Bharat) Limited, Ultratech Cement Limited, ACC Limited, Ambuja Cements Limited, etc. Further, SLPL supplies PVC products through its distributors and dealers, which are sold to 700–800 dealers spread across India after taking security deposit from the distributor against the credit allowed to them, which is 30 days. If the payment is delayed beyond 30 days, the amount is adjusted against the security deposit. This strengthens its market position, particularly in eastern India, while maintaining low counterparty credit risk. Further, a reputed client base reduces the counterparty risk to a large extent.

**Healthy financial risk profile** – The company is entitled to various subsidies from the Government of India under the Amended Technology Upgradation Funds Scheme (ATUFS), and the Government of Jharkhand under Jharkhand Textile and Footwear Policy, 2016, which are likely to support its cash flows, going forward. SLPL received Rs. 15.6 crore, Rs. 6.4 crore and Rs. 11.5 of subsidy in FY2022, FY2023 and FY2024, respectively, which supported its profitability and liquidity position. The company has a conservative capital structure, as depicted by TOL/TNW of 0.8 times (PY: 0.71 times) as on March 31, 2024. With an improvement in net worth, driven by healthy accretion to reserves and partial prepayment/scheduled repayment of long-term debt, its overall capital structure is estimated to improve in the current fiscal (FY2025). ICRA notes that the profit margins and the coverage indicators moderated somewhat in FY2024 on account of large one-time expenses. However, the same is likely to recover and remain comfortable in FY2025 as reflected by improved profitability in H1 FY2025. Going forward, the coverage indicators are likely to remain comfortable with expected improvement in its scale of operations.

### Credit challenges

**Exposed to inherent cyclicity in cement industry** – Above 85% of the company's revenues was generated from the cement sector, which exposes it to the inherent cyclicity in the cement industry. Any adverse trend in business and financial profile of the cement manufacturer would directly impact the company's credit profile.

**Competitive nature of business along with exposure to raw material price volatility** – The polymer processing business, particularly the PVC and PP bag segments, is characterised by competition from across the value chain due to low product differentiation. The high fragmentation and low entry barriers limit the pricing flexibility of industry participants, including SLPL. SLPL has the flexibility to pass on the fluctuations in the price of the key raw material (polymer) to customers, which protects its contribution margins per bag to a major extent. However, its inventory is exposed to the risk of volatility in commodity prices and hence its profitability is susceptible to volatility to that extent.

**Working capital-intensive nature of operations** – SLPL's working capital intensity (NWC/OI) stood at 24% due to high levels of inventory, which is inherent to the business. The LPP bag unit requires 2-3 lakh bags per plant of various types, which forms part of the inventory maintained by the company to meet the demand from cement companies. Further, the company is required to maintain some inventory (raw material and WIP), which is blocked in the manufacturing process. However, SLPL maintains healthy liquidity position, which is adequate to withstand any sudden increase in the working capital requirement.

## Liquidity position: Adequate

SLPL has an adequate liquidity position, supported by healthy cash flow from operations of more than Rs. 30 crore annually, satisfactory buffer in its working capital limits during the year and substantial free balances maintained by the company. The cash flows are expected to remain comfortable against minimal repayment since it has significantly prepaid the term debt and no major capex is planned in the near term. Moreover, it reported surplus cash balance of ~Rs. 57.9 crore as on September 30, 2024 and expects subsidy receivable of Rs. 12 crore in FY2025.

## Rating sensitivities

**Positive factors** – ICRA may upgrade SLPL’s ratings if the company demonstrates a significant improvement in its scale of operations and profitability leading to healthy liquidity position and maintenance of comfortable debt protection metrics on a sustained basis.

**Negative factors** – Pressure on SLPL’s ratings could arise if there is a sustained pressure on the company’s revenue or on profitability, or if it undertakes any major debt-funded capital expenditure, which adversely impacts its liquidity position and debt coverage metrics on a sustained basis. Specific credit metrics for the rating downgrade include interest coverage ratio falling below 5.0 times on a consistent basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a>
Parent/Group support	Not applicable
Consolidation/Standalone	The ratings are based on the company’s consolidated financial statements combining Padmaja Poly Packs Private Limited, 100% subsidiary of SLPL w.e.f. June 2023

## About the company

Suraj Logistix Pvt. Ltd. was incorporated by the Jamshedpur-based Khemani family in July 2004. The company manufactures PVC pipes and fittings, water tanks and accessories, PP bags and LPP bags. It has two manufacturing facilities at Saraikela-Kharsawan district in Jharkhand, where PVC products and PP bags with an annual installed capacity of 9,000 MT and 12,000 MT (expected to increase by 1,500 MT by H1 FY2024), respectively, are manufactured in one of the units. SLPL manufactures laminated PP bags with an annual installed capacity of 18,500 MT in the second unit, which became operational from September 2019. In January 2023, the company expanded the annual capacity by 4,000 MT in the second unit to make biaxially oriented polypropylene (BOPP) bags. In June 2023, SLPL expanded its footprint in southern India by acquiring Padmaja Poly Packs Private Limited, which has a manufacturing unit for LPP bags, located in Telangana.

### Key financial indicators (audited)

SLPL	FY2023	FY2024
Operating income (OI)	455.9	501.6
PAT	14.3	9.3
OPBDIT/OI	7.8%	5.8%
PAT/OI	3.1%	1.9%
Total outside liabilities/Tangible net worth (times)	0.7	0.8
Total debt/OPBDIT (times)	2.7	3.7
Interest coverage (times)	6.1	3.0

Source: Company data, ICRA Research

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortization,

### Status of non-cooperation with previous CRA

CRISIL Ratings has issued a press release dated October 14, 2024 in respect of the bank facilities of SLPL, continued the ratings to 'CRISIL B/Stable/CRISIL A4 ISSUER NOT COOPERATING' citing that the company did not provide the requisite information needed to conduct the rating exercise.

Any other information: None

### Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years					
	FY2025			FY2024		FY2023		FY2022	
	Type	Amount Rated (Rs. crore)	Dec 24, 2024	Date	Rating	Date	Rating	Date	Rating
Long term-term loan-fund based	Long Term	55.91	[ICRA]A-(Stable)	14-JUL-2023	[ICRA]A-(Stable)	23-JUN-2022	[ICRA]A-(Stable)	09-JUN-2021	[ICRA]A-(Stable)
				29-SEP-2023	[ICRA]A-(Stable)	-	-	-	-
Long term-cash credit-fund based	Long Term	55.00	[ICRA]A-(Stable)	14-JUL-2023	[ICRA]A-(Stable)	23-JUN-2022	[ICRA]A-(Stable)	09-JUN-2021	[ICRA]A-(Stable)
				29-SEP-2023	[ICRA]A-(Stable)	-	-	-	-
Short term-others-interchangeable <sup>^</sup>	Short Term	15.65	[ICRA]A2+	14-JUL-2023	[ICRA]A2+	23-JUN-2022	[ICRA]A2+	09-JUN-2021	[ICRA]A2+
				29-SEP-2023	[ICRA]A2+	-	-	-	-
Unallocated limits	Long Term/Short term	-	-	14-JUL-2023	[ICRA]A-(Stable)/[ICRA]A2+	23-JUN-2022	[ICRA]A-(Stable)/[ICRA]A2+	09-JUN-2021	[ICRA]A-(Stable)/[ICRA]A2+

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based – Cash credit	Simple
Long-term – Term loan	Simple
Short-term – Non-fund based limits	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

**Annexure I: Instrument details**

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term loan	FY2020	NA	FY2028	55.91	[ICRA]A- (Stable)
NA	Cash credit	-	NA	-	55.00	[ICRA]A- (Stable)
NA	Non-fund based limits^	-	NA	-	(15.65)	[ICRA]A2+

Source: SLPL; ^Sub-limit of cash credit

[Please click here to view details of lender-wise facilities rated by ICRA](#)

**Annexure II: List of entities considered for consolidated analysis**

Company Name	SLPL Ownership	Consolidation Approach
Suraj Logistix Private Limited	Parent Company	Full Consolidation
Padmaja Poly Packs Private Limited	100.0%	Full Consolidation

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