23 June 2022

Update | Sector: Specialty Chemicals

Chemplast Sanmar

BSE SENSEX	S&P CNX
52,266	15,557

Financials Snapshot (INR b)

Y/E March	FY20	FY21	FY22
Sales	31.2	38.0	58.9
EBITDA	4.0	9.6	12.0
PAT	(1.3)	4.2	6.5
EPS (INR)	(6.6)	20.7	28.6
EPS Gr. (%)	(149.2)	(416.3)	38.0
BV/Sh.(INR)	84.7	(17.2)	75.2
Ratios			
Net D:E	1.1	(4.2)	(0.1)
RoE (%)	(6.2)	61.4	95.7
RoCE (%)	(5.7)	15.8	31.4
Payout (%)	-	-	-
Valuations			
P/E (x)	(69.0)	21.8	15.8
P/BV (x)	5.3	(26.2)	6.0
EV/EBITDA (x)	27.8	11.1	8.4
Div. Yield (%)	-	-	-
FCF Yield (%)	1.3	11.1	8.3

CMP: INR453 Unrated

Integration at the forefront

Key highlights from the plant visit

Chemplast Sanmar, the largest manufacturer of Specialty Paste PVC resin India, via its wholly owned subsidiary - Chemplast Cuddalore Vinyls Ltd (CCVL) is the second largest manufacturer of Suspension PVC (S-PVC) in India. It has four manufacturing facilities (all in South India) with a high degree of backward integration.

We visited the company's Mettur facility, wherein it manufactures Refrigerant gases, Specialty Paste PVC Resin, Caustic Soda, Chlorinated Solvents, and Hydrogen Peroxide. Below are the key takeaways:

Physical proximity to key customers

- The Mettur plant of the company is located close to the Mettur Dam or the Stanley Reservoir, which is one of the largest dams in India. The plant has a capacity of 93.5TMC ft. The dam power house and the tunnel power house have a capacity of 40MW and 200MW, respectively.
- CHEMPLAST has four facilities in Mettur with each plant being managed by a separate plant manager. The four facilities are spread over 330 acres, with Plant 1 being 70-80 acres, Plants 2 & 3 being 80-90 acres each, and Plant 4 makes up for the remaining.
- Plant 3 is the oldest plant (commissioned in 1965) of the company wherein Caustic Soda, Chlorine, and Chlorinated Solvents are manufactured, followed by Plant 2 (1967) where Specialty Paste PVC Resin is manufactured, Plant 1 (1988) in which Refrigerant Gases are manufactured, and Plant 4 (2019) which manufactures Hydrogen Peroxide.
- The company also has a coal power plant with a capacity of 48.5MW, sufficient to supply power to all its plants in its Mettur location. CHEMPLAST uses 700-800tn/day of coal. The company imports a total of ~2.5L tonnes of coal from Indonesia. It imports a specific kind of coal having low ash and low sulphur content.
- While majority of the salt requirements are met through captive salt fields (~60%), the remaining is procured from Gujarat or from Southern India. The company also has a Zero Liquid Discharge facility that was commissioned in CY08 with a capacity of 2039KLPD with Aquatech technology. This capacity is more than adequate to meet the existing scale of operations and also for further expansions

Ambitious future prospects

- The current capacity of all the plants in the Mettur location stands at 204ktpa with another 52ktpa of Caustic Soda capacity in its Karaikal location. Suspension PVC resin capacity stands at 300ktpa with another 1068mtpa capacity for its custom manufacturing division.

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- Expansion plans are in place for the company in Suspension PVC, Paste PVC, and Custom Manufacturing. The company added 31ktpa capacity of S-PVC through debottlenecking in FY23.
- Specialty Paste PVC Resin plant was commissioned in 1967 with BF Goodrich Inc, USA. The current capacity of the plant stands at 66ktpa. CHEMPLAST produces VCM, a raw material for manufacturing Paste PVC, in-house through EDC. The company is planning to add 41ktpa capacity at Cuddalore with an estimated capex of INR3.6b. CHEMPLAST has already received environmental clearance for it.
- In the Customer Manufacturing segment of the business, CHEMPLAST has already commercialized 8 products with more in the pipeline that is likely to come online over the next 12 to 15 months. Pharma and Agrochem are its main end-user industries.
  - This is a China +1 play for CHEMPLAST as customers are telling the company to be the supplier of choice.
- The company is setting up a multipurpose facility (block 1&2) in phases with the phase 1 expected to come online in 1HFY24 (capex of INR2.5b). The management expects the plant to be ready for full utilization by FY25.

Other key highlights

- Except for Caustic Soda, all the products of the company are currently sold at the spot rate and the management is working out a way to sell that on spot too
  - As compared to the other plants, the Caustic Soda plant is power intensive in nature.
- Typically, 1.6tn of EDC produces 1tn of VCM, which in turn produces close to 1tn of Specialty Paste PVC resin.
  - Mitsubishi in Japan is the largest trader of VCM in the world and CCVL sources all its VCM requirements from them. CHEMPLAST also plans to source the required VCM for the expanded capacity of 41kt from Mitsubishi.
- While CHEMPLAST produces Paste PVC by using the micro suspension technology, Finolex uses the emulsion technology. As per the management, demand for the micro suspension produced Paste PVC is more than the emulsion-based Paste PVC.
  - India is a Paste PVC deficit market with annual demand at 145kt and the market growing by over 9% per annum.

Financial Story in Charts

Exhibit 1: Consolidated revenues have registered a CAGR of 13% over FY17-22

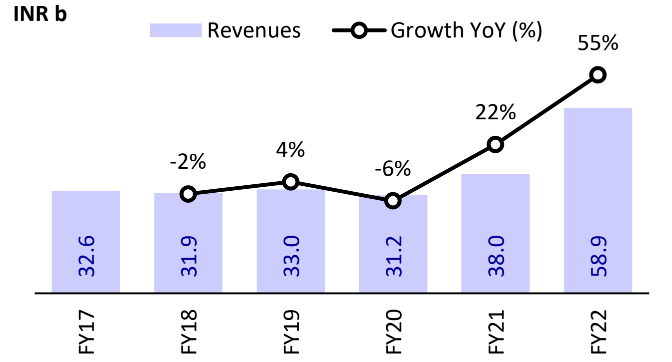


Exhibit 2: ...with EBITDAM at 20% in FY22 v/s 15% in FY17

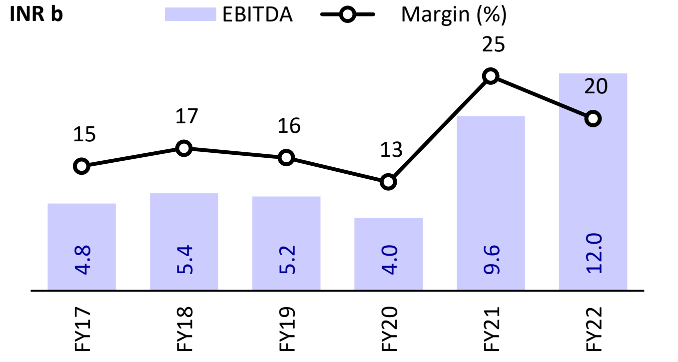


Exhibit 3: Adjusted PAT has registered a CAGR of 30% in the past 5 years

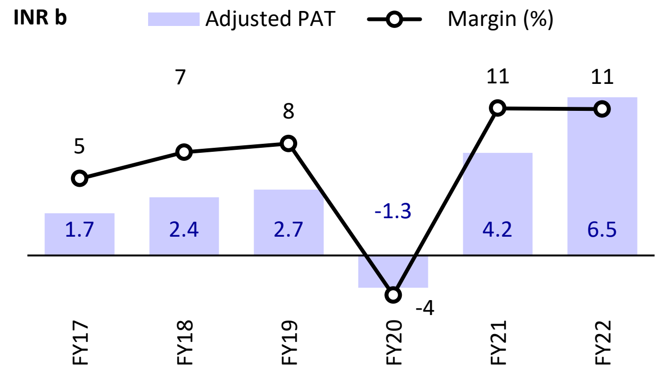


Exhibit 4: ...with return profile also recovering after a blip in FY20

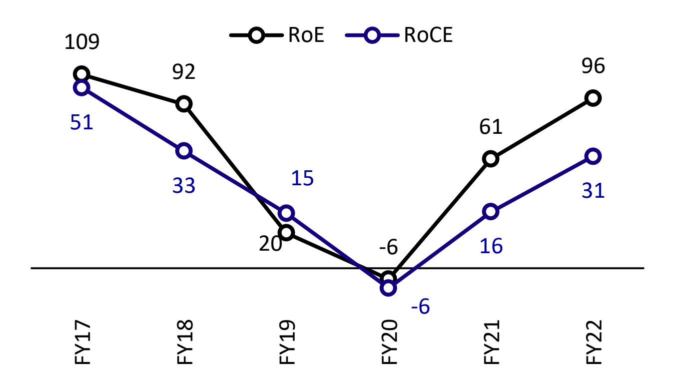


Exhibit 5: Strong FCF generation, cumulative of INR39b over FY17-22

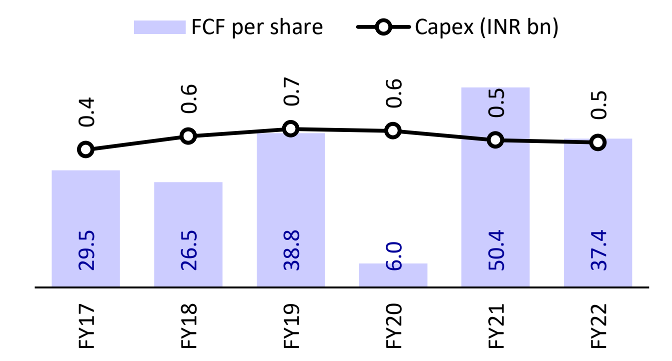


Exhibit 6: ...CHEMPLAST turned net cash after its IPO in FY22 on a consolidated basis

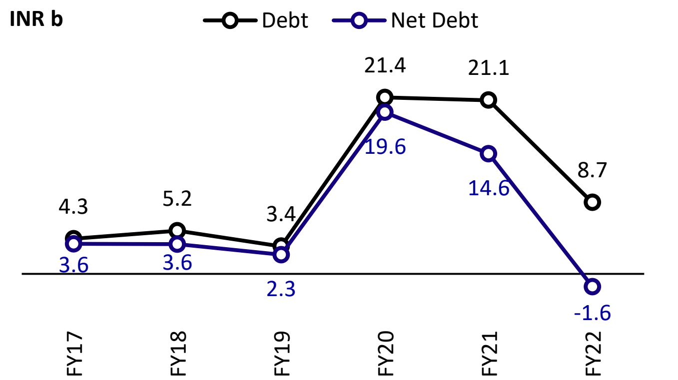


Exhibit 7: Quarterly snapshot of the past 2 years **(INR m)**

Y/E March	FY21				FY22				FY21	FY22	YoY	QoQ
	1Q	2Q	3Q	4Q	1Q	2Q	3Q	4Q			(%)	(%)
Gross Sales	**4,474**	**9,248**	**10,862**	**13,403**	**9,599**	**16,709**	**14,498**	**18,047**	**37,987**	**58,920**	**35%**	**24%**
YoY Change (%)	NA	NA	NA	NA	114.6	80.7	33.5	34.6		55.1		
Gross Margins (%)	54%	46%	43%	41%	38%	36%	43%	33%	44%	37%	-7%	-9%
EBITDA	**1,068**	**2,317**	**2,807**	**3,423**	**1,507**	**3,444**	**3,509**	**3,442**	**9,615**	**11,968**	**1%**	**-2%**
Margins (%)	23.9	25.1	25.8	25.5	15.7	20.6	24.2	19.1	25.3	20.3	-6.5	-5.1
Depreciation	309	317	330	355	308	331	330	402	1,311	1,371		
Interest	1,070	1,213	1,135	916	1,004	1,489	374	349	4,334	3,216		
Other Income	-29	40	52	101	144	239	150	111	164	575		
PBT before EO expense	**-341**	**828**	**1,394**	**2,253**	**338**	**1,862**	**2,954**	**2,801**	**4,134**	**7,955**	**24%**	**-5%**
Extra-Ord expense	-47	-134	23	0	0	0	0	0	-157	0		
PBT	**-388**	**694**	**1,418**	**2,253**	**338**	**1,862**	**2,954**	**2,801**	**3,977**	**7,955**	**24%**	**-5%**
Tax	-506	-64	774	1,165	50	349	586	485	1,369	1,469		
Rate (%)	130.5	-9.2	54.6	51.7	14.8	18.7	19.8	17.3	34.4	18.5		
Minority Interest & P/L of Asso. Cos.	-1,185	-1,011	1,112	2,577	0	0	0	0	1,493	0		
Reported PAT	**-1,066**	**-253**	**1,756**	**3,664**	**288**	**1,513**	**2,369**	**2,316**	**4,101**	**6,486**	**-37%**	**-2%**
Adj PAT	**-1,019**	**-120**	**1,733**	**3,664**	**288**	**1,513**	**2,369**	**2,316**	**4,258**	**6,486**	**-37%**	**-2%**
YoY Change (%)	NA	NA	NA	NA	-128.3	-1,363.3	36.7	-36.8		52.3		
Margins (%)	-22.8	-1.3	15.9	27.3	3.0	9.1	16.3	12.8	11.2	11.0	-14.5	-3.5
Segment Revenue (INR m)												
Specialities	1,132	3,552	4,068	4,136	3,119	5,345	5,171	6,486	12,887	20,122	**57%**	**25%**
Commodity	3,291	5,713	6,817	9,286	6,488	11,388	9,350	11,603	25,107	38,828	**25%**	**24%**
Segment EBIT (INR m)												
Specialities	(675)	121	465	644	236	738	1,695	1,667	556	4,336	**159%**	**-2%**
Commodity	335	706	929	1,609	102	1,124	1,259	1,134	3,578	3,619	**-29%**	**-10%**

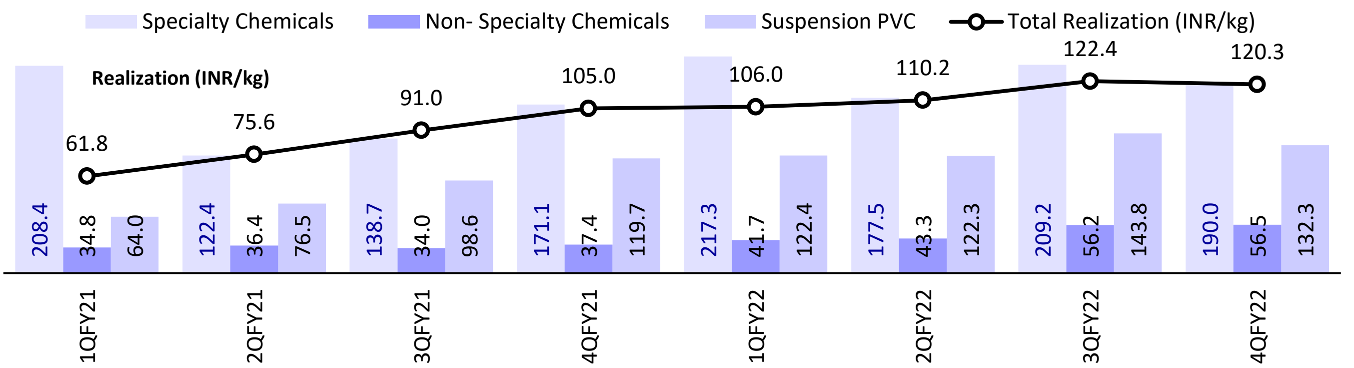
Sources: Company, MOFSL

Exhibit 8: Financial summary **(INR b)**

Y/E March	FY17	FY18	FY19	FY20	FY21	FY22
Sales	32.6	31.9	33.0	31.2	38.0	58.9
EBITDA	4.8	5.4	5.2	4.0	9.6	12.0
PAT	1.7	2.4	2.7	(1.3)	4.2	6.5
EPS (INR)	8.5	11.8	13.3	(6.6)	20.7	28.6
EPS Gr. (%)		37.6	13.3	(149.2)	(416.3)	38.0
BV/Sh.(INR)	15.7	9.8	125.1	84.7	(17.2)	75.2
Ratios						
Net D:E	1.1	1.8	0.1	1.1	(4.2)	(0.1)
RoE (%)	109.2	92.4	19.7	(6.2)	61.4	95.7
RoCE (%)	50.8	32.9	15.4	(5.7)	15.8	31.4
Payout (%)	-	-	-	-	-	-
Valuations						
P/E (x)	52.9	38.5	33.9	(69.0)	21.8	15.8
P/BV (x)	28.9	46.1	3.6	5.3	(26.2)	6.0
EV/EBITDA (x)	19.9	17.8	18.1	27.8	11.1	8.4
Div. Yield (%)	-	-	-	-	-	-
FCF Yield (%)	6.5	5.9	8.6	1.3	11.1	8.3

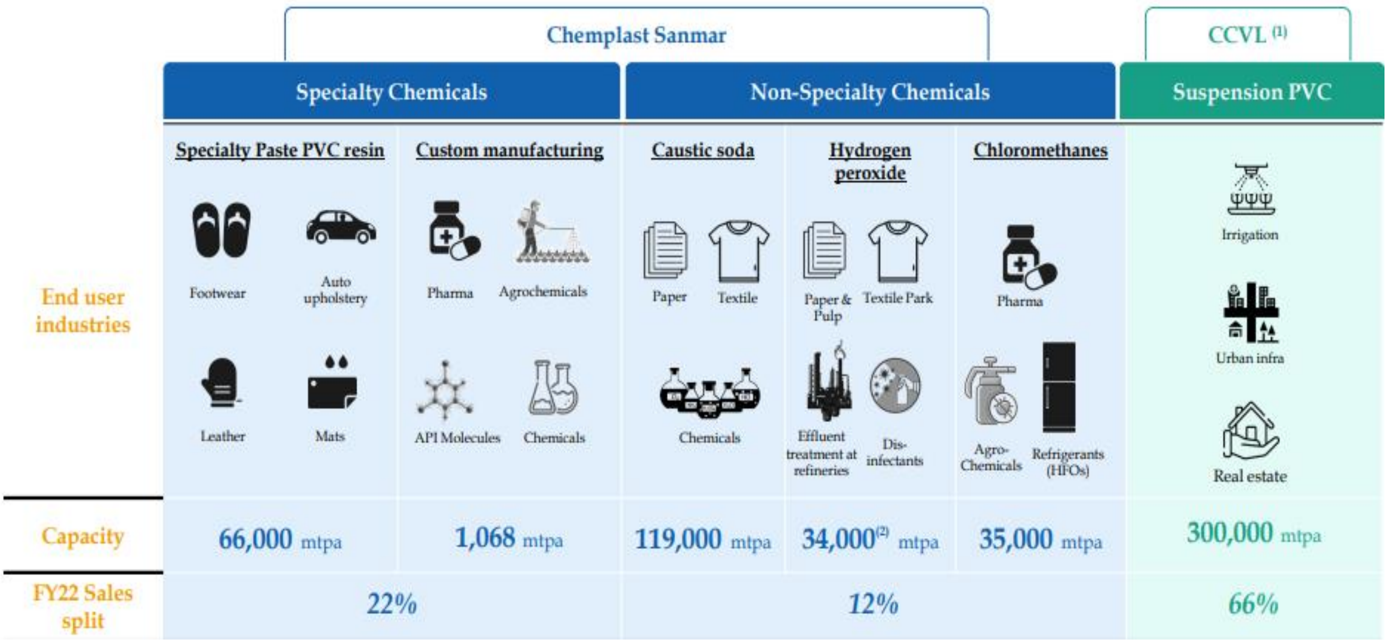
Sources: Company, MOFSL

Exhibit 9: Overall realization has grown at a steady pace over the past eight quarters



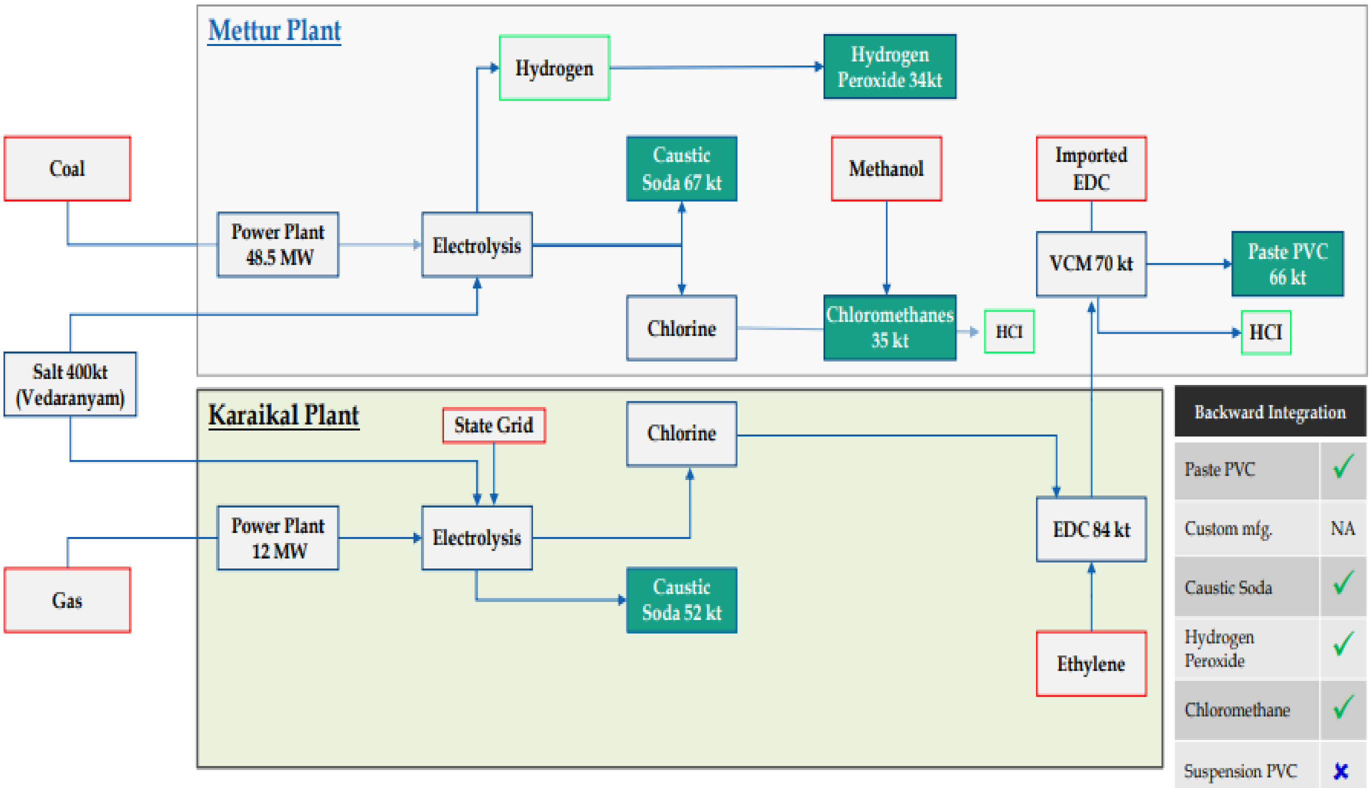
Source: Company, MOFSL

Exhibit 10: The three segments of the company



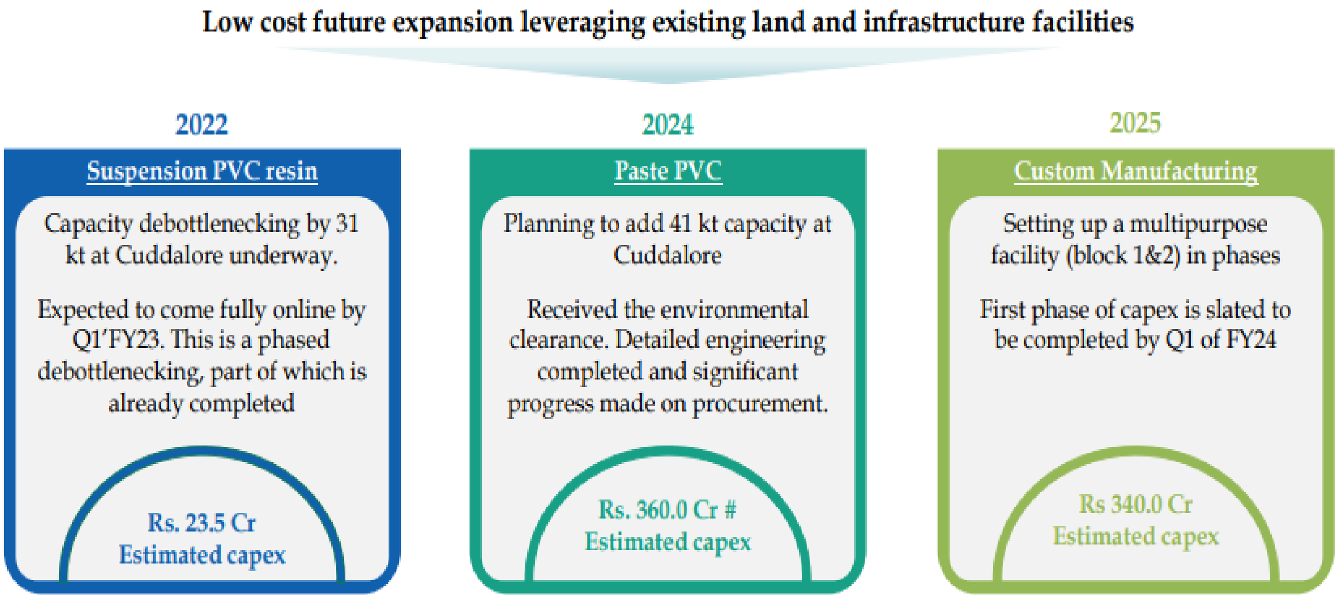
Sources: Company, MOFSL

Exhibit 11: High degree of backward integration at both the plant locations



Source: Company, MOFSL

Exhibit 12: Aggressive expansion plans in place with a strong product pipeline till FY25



**S-PVC debottlenecking has already been completed in 1QFY23*

Source: Company, MOFSL

Exhibit 13: CHEMPLAST enjoys proximity to key customers across industries in South and East India

	Chemplast Sanmar			CCVL
Location	Mettur, Tamilnadu	Berigai Tamilnadu	Karaikal, Puducherry	Cuddalore, Tamilnadu
Capacity	Paste PVC 66 ktpa Caustic Soda 67 ktpa Hydrogen Peroxide 34 ktpa Chloromethanes 35 ktpa Refrigerant gas 1.7 ktpa	Custom manufacturing 1068 mtpa	Caustic soda 52 ktpa	Suspension PVC resin 300 ktpa
Key highlights	▪ Zero liquid discharge facility ▪ Sourcing of power from a captive power plant of 48.5 MW ▪ Leased salt field to ensure stable supply	▪ Multi-purpose facility ▪ Fully automated with distributed control systems and modern technologies ▪ Capability to support development work in various chemistries at the laboratory scale and pilot scale	▪ Zero liquid discharge plant ▪ Desalination plant ▪ Captive terminal for import of feedstock and sale of product ▪ Two captive power plants of 8.5 MW and 3.5 MW ▪ Stores ethylene in a double walled insulated cryogenic tank with 4 kt capacity ▪ Leased salt field to ensure stable supply	▪ Zero liquid discharge plant ▪ Desalination plant ▪ Captive terminal for import of feedstock ▪ Has two refrigerated atmospheric storage tanks with a capacity of 7,500 MT each for VCM ▪ Debottlenecking of capacity by 31kt is underway
ISO 14001 2015	✓	✓	✓	✓
ISO 9001 2015	✓	✓	✓	✓
ISO 45001 2015	✓	✓	✓	✓

Source: Company, MOFSL

Exhibit 14: Sneak peek into the manufacturing facilities of CHEMPLAST

Paste PVC plant, Mettur, Tamilnadu

Chloromethanes plant, Mettur, Tamilnadu

Custom manufacturing, Berigai , Tamilnadu

Custom manufacturing, Berigai , Tamilnadu

Caustic Soda manufacturing, Karaikal, Puducherry

Suspension PVC, Cuddalore, Tamilnadu

Source: Company, MOFSL

Financials and Valuations

Consolidated - Financial Snapshot						(INR m)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Total Income from Operations	**32,620**	**31,893**	**33,050**	**31,228**	**37,987**	**58,920**
Change (%)		-2.2	3.6	-5.5	21.6	55.1
Gross Margins (%)	45.6	41.7	39.1	38.1	44.1	37.0
EBITDA	**4,794**	**5,358**	**5,187**	**4,004**	**9,615**	**11,968**
Margin (%)	14.7	16.8	15.7	12.8	25.3	20.3
Depreciation	687	810	793	1,291	1,311	1,371
EBIT	**4,106**	**4,547**	**4,394**	**2,713**	**8,304**	**10,597**
Int. and Finance Charges	726	775	1,108	2,119	4,334	3,216
Other Income	290	241	248	192	164	575
PBT bef. EO Exp.	**3,671**	**4,013**	**3,534**	**786**	**4,134**	**7,955**
EO Items	-486	-277	151	-1,069	-157	0
PBT after EO Exp.	**3,185**	**3,737**	**3,685**	**-283**	**3,977**	**7,955**
Total Tax	1,682	1,518	869	-509	1,369	1,469
Tax Rate (%)	52.8	40.6	23.6	180.2	34.4	18.5
Minority Interest	0	0	0	698	-1,493	0
Reported PAT	**1,502**	**2,219**	**2,816**	**-472**	**4,101**	**6,486**
Adjusted PAT	**1,732**	**2,383**	**2,700**	**-1,329**	**4,204**	**6,486**
Change (%)		37.6	13.3	-149.2	-416.3	54.3
Margin (%)	5.3	7.5	8.2	-4.3	11.1	11.0

Consolidated - Balance Sheet						(INR m)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Equity Share Capital	800	33,639	33,639	25,567	1,014	1,134
Total Reserves	2,373	-31,651	-8,276	-8,389	-4,509	15,917
Net Worth	**3,173**	**1,988**	**25,363**	**17,178**	**-3,495**	**17,050**
Total Loans	4,270	5,245	3,361	21,429	21,102	8,674
Deferred Tax Liabilities	721	1,863	8,157	6,751	7,200	7,415
Capital Employed	**8,164**	**9,096**	**36,881**	**45,358**	**24,807**	**33,139**
Gross Block	11,348	12,210	32,199	33,849	34,320	36,802
Less: Accum. Deprn.	681	1,511	276	1,530	2,841	4,212
Net Fixed Assets	**10,666**	**10,699**	**31,923**	**32,320**	**31,479**	**32,590**
Capital WIP	61	818	1,193	127	251	337
Total Investments	**6,078**	**9,383**	**11,994**	**26,435**	**0**	**0**
Curr. Assets, Loans&Adv.	**5,917**	**13,583**	**9,883**	**7,452**	**13,135**	**23,083**
Inventory	3,296	3,318	3,877	3,198	4,071	7,110
Account Receivables	735	694	719	501	739	1,898
Cash and Bank Balance	622	1,629	1,025	1,799	6,513	10,227
Cash	622	1,532	991	922	3,035	9,998
Bank Balance	0	38	34	877	3,478	2,294
Loans and Advances	1,264	7,942	4,262	1,954	1,812	3,847
Curr. Liability & Prov.	**14,558**	**25,388**	**18,112**	**20,975**	**20,058**	**22,871**
Account Payables	10,679	9,637	13,609	13,972	16,561	18,783
Other Current Liabilities	3,879	15,751	4,503	7,004	3,496	4,088
Net Current Assets	**-8,641**	**-11,805**	**-8,229**	**-13,523**	**-6,923**	**212**
Appl. of Funds	**8,164**	**9,095**	**36,881**	**45,359**	**24,808**	**33,139**

Financials and Valuations

Ratios						
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
Basic (INR)						
EPS	**8.5**	**11.8**	**13.3**	**-6.6**	**20.7**	**28.6**
EPS Growth (%)		**37.6**	**13.3**	**-149.2**	**-416.3**	**38.0**
Cash EPS	11.9	15.8	17.2	-0.2	27.2	34.7
BV/Share	15.7	9.8	125.1	84.7	-17.2	75.2
Valuation (x)						
P/E	52.9	38.5	33.9	-69.0	21.8	15.8
Cash P/E	37.9	28.7	26.2	-2,385.0	16.6	13
P/BV	28.9	46.1	3.6	5.3	-26.2	6
EV/Sales	2.9	3.0	2.8	3.6	2.8	2
EV/EBITDA	19.9	17.8	18.1	27.8	11.1	8
FCF per share	29.5	26.5	38.8	6.0	50.4	37
Return Ratios (%)						
RoE	109.2	92.4	19.7	-6.2	61.4	95.7
RoCE	50.8	32.9	15.4	-5.7	15.8	31
RoIC	276.1	-405.6	33.7	-11.0	31.1	43
Working Capital Ratios						
Fixed Asset Turnover (x)	6.1	3.0	1.6	1.0	1.2	1.8
Asset Turnover (x)	4.0	3.5	0.9	0.7	1.5	1.8
Inventory (Days)	37	38	43	37	39	44
Debtor (Days)	8	8	8	6	7	12
Creditor (Days)	119	110	150	163	159	116
Leverage Ratio (x)						
Current Ratio	0.4	0.5	0.5	0.4	0.7	1.0
Interest Cover Ratio	5.7	5.9	4.0	1.3	1.9	3.3
Net Debt/Equity	1.1	1.8	0.1	1.1	-4.2	-0.1

Consolidated - Cash Flow Statement						(INR m)
Y/E March	**FY17**	**FY18**	**FY19**	**FY20**	**FY21**	**FY22**
OP/(Loss) before Tax	3,671	4,015	3,534	88	5,627	7,955
Depreciation	687	1,051	793	1,291	1,311	1,371
Interest Expenses	726	1,176	1,108	2,119	4,334	3,216
Others	-469	1,258	186	-379	-382	-385
Direct Taxes Paid	-588	-713	-824	-424	-605	-1,736
(Inc)/Dec in WC	2,389	-829	3,737	-839	480	-1,412
CF from Operations	**6,416**	**5,957**	**8,535**	**1,856**	**10,764**	**9,010**
(Inc)/Dec in FA	-444	-585	-662	-642	-545	-521
Free Cash Flow	**5,971**	**5,372**	**7,873**	**1,214**	**10,218**	**8,489**
Change in Investments	-3,649	-29,848	-5,766	-12,414	24,553	1,294
Others	217	108	115	-739	-2,493	308
CF from Investments	**-3,876**	**-30,325**	**-6,313**	**-13,795**	**21,515**	**1,082**
Issue of Shares	0	3,000	0	0	0	12,822
Inc/(Dec) in Debt	-2,765	25,585	-1,711	19,521	-1,672	-12,898
Interest Paid	-732	-1,521	-1,111	-2,565	-3,896	-3,006
Others	0	0	0	-5,087	-24,599	-46
CF from Fin. Activity	**-3,497**	**27,063**	**-2,822**	**11,869**	**-30,166**	**-3,129**
Inc/Dec of Cash	**-957**	**2,695**	**-600**	**-69**	**2,113**	**6,963**
Opening Balance	1,579	-1,163	1,591	991	922	3,035
Closing Balance	**622**	**1,532**	**991**	**922**	**3,035**	**9,997**

NOTES

Explanation of Investment Rating	
Investment Rating	**Expected return (over 12-month)**
BUY	>=15%
SELL	< - 10%
NEUTRAL	< - 10 % to 15%
UNDER REVIEW	Rating may undergo a change
NOT RATED	We have forward looking estimates for the stock but we refrain from assigning recommendation

*In case the recommendation given by the Research Analyst is inconsistent with the investment rating legend for a continuous period of 30 days, the Research Analyst shall within following 30 days take appropriate measures to make the recommendation consistent with the investment rating legend.

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