

22 May 2024

India | Equity Research | Q4FY24 results review

Chemplast Sanmar

Specialty Chemicals

Customer manufacturing business' growth visibility stronger; PVC – worst likely behind

Chemplast Sanmar's (CSL) Q4FY24 print was expected to be weak, owing to the PVC business continuing to struggle, start-up costs in the custom manufacturing business (new facility and products) and weak revenues from its existing portfolio. The PVC business is poised to recover over the next few quarters, as spreads global normalise, and expects regulatory intervention to further aid spread for Indian producers. The CM business continues to show progress with the addition of a fourth Lol for NCE AI in agrochemicals. We cut our FY25E-26E EBITDA by 3-5%, but increase our SoTP-based target price to INR 555 (vs. INR 550); as we increase Custom manufacturing's FY26E EV/EBITDA multiple to 22x (from 20x); and standalone EV/EBITDA multiple to 9x (from 8x). Maintain **BUY**.

S-PVC spread improve; specialty profits struggling

Specialty volumes are up 11.5% YoY to 18.4kte, and S-PVC volumes are down 4.3% YoY to 81kte. Non-specialty volumes are up 15.1% YoY to 40kte, on normalising demand. Specialty spreads (gross profit per kg) contracted by 25.2% YoY/8.6% QoQ to INR 113/kg and S-PVC spreads were up 40.1% QoQ (down 17.1% YoY) to INR 15/kg. Specialty spreads have seen a significant impact from lower realisation/revenues in non-specialty segment, lower spreads in paste-PVC and lower contribution margin in custom manufacturing (company is in process to optimise production). S-PVC prices are up to INR 74/kg (vs. INR 72/kg in Q3FY24).

Losses in standalone hurting company performance

Revenues down 8.4% YoY to INR 11bn due to steep fall in prices. Gross profit dipped 18.1% YoY/up 14.8% QoQ to INR 3.3bn. Other expenses dropped 3% YoY to INR 2.6bn with a drop in power cost, while employee cost rose 30.6% YoY on commissioning of new projects. EBITDA was at INR 210mn due to losses in standalone of INR 163mn. Standalone was hurt by volatility in paste-PVC prices; and new facility and new facility start-up costs in custom manufacturing business. CCVL (S-PVC) EBITDA was INR 373mn (vs. INR 34mn in Q3FY24). CSL expects the worst for the PVC business to be behind; PVC prices in China have hardened, and spreads are normalising. Paste-PVC prices to benefit as the government's notifies recommended anti-dumping duty; and custom manufacturing scale-up. CSL reported net loss of INR 311mn.

Financial Summary

Y/E March (INR mn)	FY23A	FY24A	FY25E	FY26E
Net Revenue	49,411	39,230	48,606	54,721
EBITDA	4,681	258	6,868	8,679
EBITDA Margin (%)	9.5	0.7	14.1	15.9
Net Profit	1,524	(1,584)	3,175	4,672
EPS (INR)	13.5	(10.0)	20.1	29.5
EPS % Chg YoY	(67.2)	(174.5)	(300.4)	47.2
P/E (x)	50.0	(48.1)	24.0	16.3
EV/EBITDA (x)	15.9	323.3	12.3	9.7
RoCE (%)	11.1	(2.9)	11.2	14.0
RoE (%)	8.6	(8.9)	17.2	21.1

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Market Data

Market Cap (INR)	76bn
Market Cap (USD)	914mn
Bloomberg Code	CHEMPLAS IN
Reuters Code	CHPA BO
52-week Range (INR)	543 /413
Free Float (%)	45.0
ADTV-3M (mn) (USD)	0.8

Price Performance (%)	3m	6m	12m
Absolute	1.6	7.7	3.3
Relative to Sensex	0.4	(4.9)	(16.5)

Earnings Revisions (%)	FY25E	FY26E
Revenue	1.1	0.9
EBITDA	(5.5)	(3.4)
EPS	(5.2)	3.1

Previous Reports

22-03-2024: [Company Update](#)

04-11-2023: [Q2FY24 results review](#)

Other highlights

1) Suspension PVC: China PVC import was 860kte and total import into India was 2.6mn te for FY24. China's highest exports was to India, and China's rising demand / improving RE outlook should aid lower PVC exports to India. The company has already started seeing higher price quotes from China. S-PVC price quote are at USD 830-850/te while VCM prices were at USD 600-620/te, which implies spread of USD 220/te [without custom duty and freight cost]. This compared to long term spread of USD 240/te. Government has initiated investigation of injury on S-PVC producers from low costs import, and considering ADD recommendation on paste-PVC, company remains hopeful on S-PVC as well. Freight cost has also increased from USD 40-50/te to USD 80-90/te, which also helps the company in improving spreads in India.

Per management, global capacity addition remains limited in S-PVC – 1) US capacities to rise by 400ktpa; post that, the company expects no major capacity addition due to regulatory reasons. 2) China capacity addition to be 500-750ktpa. 3) Middle East and SEA to have capacity addition of 750ktpa, and 200-300ktpa, respectively. 4) Except China, NEA (North East Asia) capacity addition to be negligible. 5) No new capacity addition in Europe.

2) Paste PVC: Paste-PVC demand also continues to be strong in India. Again, imported volumes of paste-PVC is fanning pricing volatility. The company remains hopeful of price increase in paste-PVC as ADD gets notified wherein the government has recommended ADD of USD 150-600/te on imports from majority of global players. The company expects to reach peak production in new 41kte capacity added by end-Q1FY25, and considering ADD on imports, CSL expects to sell its entire production. New capacity one-steps process where company will convert VCM to paste-PVC, which will have lower spreads of INR 70-100/kg vs existing EDC to paste-PVC.

3) CM business: Custom manufacturing revenue has declined 13% for FY24 due to weak performance in its existing portfolio, and new products have only partly offset the weakness. CSL has started producing two initial products where it has signed Lols. However, margins were lower as the company is yet to optimise the production process. Phase-2 of MPP-3 will be commissioned by end-Q1FY25. CSL expects two initial Lols will be able to completely occupy phase-1 of MPP-3 with some capacity to spare for small campaigns. Lols three and four will be produced in phase-2. The company will evaluate capacity utilisation from all four Lols, and new investment requirements, if any. CSL estimates all four Lols together should have peak annual revenue of INR 7bn. Lol-4 will have a total revenue potential of INR 5bn for five years from CY25. The company has retained its guidance of INR 10-11bn revenue in custom manufacturing business in next three years. It has new product pipeline of 15 products, which are in agro, pharma and industrial application with potential of commercialising three-four products each year. The company hopes to achieve EBITDA margin 23-25% in custom manufacturing as the business scales; however, it has not shared details of the working capital intensity for the business.

Risks

1) Lower-than-expected execution in custom manufacturing business. 2) Lower PVC spreads.

Exhibit 1: Chemplast Sanmar financials (consolidated)

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	11,468	9,964	9,878	8,881	10,507	18.3	(8.4)
COGS	7,475	7,250	6,563	6,033	7,237	20.0	(3.2)
Gross profit	3,993	2,714	3,315	2,848	3,271	14.8	(18.1)
GPM (%)	34.8	27.2	33.6	32.1	31.1		
Employee cost	391	382	390	420	511	21.6	30.6
% of revenue	3.4	3.8	4.0	4.7	4.9		
Other expenses	2,628	2,678	2,465	2,494	2,550	2.3	(3.0)
% of revenue	22.9	26.9	25.0	28.1	24.3		
Total expenses	3,019	3,060	2,855	2,914	3,061	5.0	1.4
EBITDA	974	(345)	460	(66)	210		(78.5)
EBITDA (%)	8.5	(3.5)	4.7	(0.7)	2.0		
Depreciation	335	325	353	376	460	22.2	37.4
EBIT	640	(670)	106	(442)	(250)		
Other income	309	180	372	127	126	(0.2)	(59.2)
Finance cost	384	442	386	468	510	8.8	32.7
PBT	565	(932)	92	(783)	(633)		
Tax	104	(292)	(168)	110	(322)		
ETR (%)	18.4	31.3	(181.6)	(14.1)	50.8		
Exceptional item	-	-	-	-	-		
Net profit	461	(640)	261	(894)	(311)		
Net profit (%)	4.0	(6.4)	2.6	(10.1)	(3.0)		
EPS (INR)	2.9	(4.0)	1.6	(5.7)	(2.0)		

Source: Company data, I-Sec research

Exhibit 2: Spreads in standalone business remain weak

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Volumes (te)							
Specialty	16,500	17,869	18,534	16,439	18,398	11.9	11.5
Non-Specialty	34,625	30,851	33,430	37,527	39,867	6.2	15.1
Suspension PVC	84,414	85,620	81,822	77,396	80,803	4.4	(4.3)
Total	1,35,539	1,34,340	1,33,786	1,31,362	1,39,068	5.9	2.6
Revenue							
Specialty	2,600	2,170	2,230	1,940	3,320	71.1	27.7
Non-Specialty	1,670	1,310	1,280	1,400	1,220	(12.9)	(26.9)
Suspension PVC	7,190	6,490	6,370	5,540	5,960	7.6	(17.1)
Total	11,460	9,970	9,880	8,880	10,500	18.2	(8.4)
Realisation/kg (INR)							
Specialty	158	121	120	118	180	52.9	14.5
Non-Specialty	48	42	38	37	31	(18.0)	(36.6)
Suspension PVC	85	76	78	72	74	3.0	(13.4)
Gross profit/kg (INR)							
Specialty	151	109	107	124	113	(8.6)	(25.2)
Suspension PVC	18	9	16	10	15	40.1	(17.1)
EBITDA/kg (INR)							
Specialty	19	(13)	(4)	(6)	(9)		
Suspension PVC	8	(1)	7	0	5	953.6	(41.1)

Source: I-Sec research, Company data

Exhibit 3: Chemplast Sanmar financials (standalone)

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	4,277	3,499	3,506	4,391	5,160	17.5	20.6
COGS	1,778	1,542	1,514	2,353	3,074	30.6	72.9
Gross profit	2,499	1,957	1,992	2,038	2,086	2.3	(16.6)
GPM (%)	58.4	55.9	56.8	46.4	40.4		
Employee cost	273	255	256	294	371	26.1	35.7
% of revenue	6.4	7.3	7.3	6.7	7.2		
Other expenses	1,913	1,943	1,817	1,843	1,878	1.9	(1.8)
% of revenue	44.7	55.5	51.8	42.0	36.4		
Total expenses	2,186	2,198	2,073	2,138	2,249	5.2	2.9
EBITDA	313	(241)	(81)	(100)	(163)		(152.1)
EBITDA (%)	7.3	(6.9)	(2.3)	(2.3)	(3.2)		
Depreciation	226	213	241	267	345	29.3	53.1
EBIT	88	(454)	(322)	(367)	(509)		
Other income	67	67	258	42	51	21.1	(24.8)
Finance cost	59	48	40	109	130	20.0	120.7
PBT	96	(436)	(104)	(434)	(588)		
Tax	14	(156)	(242)	166	(291)		
ETR (%)	14.4	35.8	231.5	(38.2)	49.5		
Net profit	82	(280)	137	(599)	(297)		
Net profit (%)	1.9	(8.0)	3.9	(13.6)	(5.8)		

Source: I-Sec research, Company data

Exhibit 4: CCVL financials (consolidated minus standalone)

INR mn	Q4FY23	Q1FY24	Q2FY24	Q3FY24	Q4FY24	QoQ (%)	YoY (%)
Revenue	7,191	6,466	6,371	4,490	5,347	19.1	(25.6)
COGS	5,697	5,708	5,048	3,680	4,162	13.1	(26.9)
Gross profit	1,494	758	1,323	810	1,185	46.2	(20.7)
GPM (%)	20.8	11.7	20.8	18.0	22.2		
Employee cost	117	127	134	126	140	11.2	18.8
% of revenue	1.6	2.0	2.1	2.8	2.6		
Other expenses	716	735	648	651	673	3.3	(6.0)
% of revenue	10.0	11.4	10.2	14.5	12.6		
Total expenses	833	862	783	776	812	4.6	(2.5)
EBITDA	661	(104)	540	34	373	1,000.0	(43.6)
EBITDA (%)	9.2	(1.6)	8.5	0.8	7.0		
Depreciation	109	111	112	109	114	5.0	4.9
EBIT	552	(215)	428	(75)	259		
Other income	242	113	114	85	76	(10.7)	(68.8)
Finance cost	325	394	346	360	379	5.5	16.7
PBT	469	(496)	197	(350)	(45)		
Tax	90	(136)	74	(55)	(31)		
ETR (%)	19.3	27.4	37.4	15.8	68.5		
Exceptional item	-	-	-	-	-		
Net profit	379	(360)	123	(295)	(14)		
Net profit (%)	5.3	(5.6)	1.9	(6.6)	(0.3)		

Source: I-Sec research, Company data

Exhibit 5: Earnings revision

INR mn	Revised		Earlier		% Change	
	FY25E	FY26E	FY25E	FY26E	FY25E	FY26E
Financial						
Revenue	48,606	54,721	48,067	54,225	1.1	0.9
Gross profit	19,366	22,278	19,452	22,090	(0.4)	0.8
GPM (%)	39.8	40.7	40.5	40.7		
EBITDA	6,868	8,679	7,270	8,987	(5.5)	(3.4)
EBITDA (%)	14.1	15.9	15.1	16.6		
PAT	3,175	4,672	3,350	4,530	(5.2)	3.1
EPS (INR)	20.1	29.5	21.2	28.6	(5.2)	3.1

Source: I-Sec research, Company data

Exhibit 6: SoTP-based valuation

Business units (INR mn)	Methodology	Multiple (x)	FY26E
Custom manufacturing	EV/EBITDA	22.0	41,048
Other standalone biz	EV/EBITDA	9.0	32,916
S-PVC	EV/EBITDA	7.0	22,092
Enterprise value			96,056
Net debt			8,577
Equity value			87,479
No of outstanding shares (mn)			158
Equity value (INR /sh)			555

Source: I-Sec research, Company data

Exhibit 7: Implied valuations

	FY25E	FY26E
Target price (INR)	555	555
EPS	20	30
Implied PE (x)	27.7	18.8
Enterprise Value (INR mn)	96,373	95,759
EBITDA (INR mn)	6,868	8,679
Implied EV/EBITDA (x)	14.0	11.0

Source: I-Sec research, Company data

Exhibit 8: Shareholding pattern

%	Sep'23	Dec'23	Mar'24
Promoters	55.0	55.0	55.0
Institutional investors	38.5	38.6	39.0
MFs and others	24.8	25.4	26.2
FIs/Banks	0.0	0.0	0.0
Insurance	2.0	2.0	1.8
FIIIs	11.7	11.2	11.0
Others	6.5	6.4	6.0

Source: Bloomberg

Exhibit 9: Price chart



Source: Bloomberg

Financial Summary

Exhibit 10: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Net Sales	49,411	39,230	48,606	54,721
Operating Expenses	44,729	38,971	41,738	46,041
EBITDA	4,681	258	6,868	8,679
EBITDA Margin (%)	9.5	0.7	14.1	15.9
Depreciation & Amortization	1,420	1,514	1,835	1,950
EBIT	3,261	(1,255)	5,033	6,729
Interest expenditure	1,540	1,805	1,537	1,191
Other Non-operating Income	799	805	748	708
Recurring PBT	2,520	(2,256)	4,244	6,246
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	192	(671)	1,070	1,574
PAT	1,524	(1,584)	3,175	4,672
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	805	-	-	-
Net Income (Reported)	2,127	(1,584)	3,175	4,672
Net Income (Adjusted)	1,524	(1,584)	3,175	4,672

Source Company data, I-Sec research

Exhibit 11: Balance sheet

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Total Current Assets	21,457	18,410	17,861	18,871
of which cash & cash eqv.	11,919	8,012	6,346	4,959
Total Current Liabilities & Provisions	21,558	20,434	17,951	17,488
Net Current Assets	(101)	(2,024)	(91)	1,383
Investments	0	0	0	0
Net Fixed Assets	35,256	40,361	41,341	42,346
ROU Assets	622	604	604	604
Capital Work-in-Progress	4,018	1,897	1,897	1,897
Total Intangible Assets	-	-	-	-
Other assets	1,033	928	744	781
Deferred Tax Assets	-	-	-	-
Total Assets	58,368	60,303	60,550	62,603
Liabilities				
Borrowings	10,080	15,423	14,923	12,923
Deferred Tax Liability	7,167	6,515	6,515	6,515
Provisions	-	-	-	-
Other Liabilities	979	926	1,183	1,340
Equity Share Capital	791	791	791	791
Reserves & Surplus	17,451	15,872	18,843	23,201
Total Net Worth	18,585	17,006	19,977	24,335
Minority Interest	-	-	-	-
Total Liabilities	58,368	60,303	60,550	62,603

Source Company data, I-Sec research

Exhibit 12: Quarterly trend

(INR mn, year ending March)

	Jun-23	Sep-23	Dec-23	Mar-24
Net Sales	9,964	9,878	8,881	10,507
% Growth (YOY)	(29.4)	(17.3)	(25.3)	(8.4)
EBITDA	(345)	460	(66)	210
Margin %	(3.5)	4.7	(0.7)	2.0
Other Income	180	372	127	126
Extraordinaries	0	0	0	0
Adjusted Net Profit	(640)	261	(894)	(311)

Source Company data, I-Sec research

Exhibit 13: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24A	FY25E	FY26E
Operating Cashflow	3,677	17	5,798	7,105
Working Capital Changes	(123)	(2,467)	(3,158)	(2,739)
Capital Commitments	(4,196)	(6,189)	(2,815)	(2,956)
Free Cashflow	(642)	(8,639)	(175)	1,410
Other investing cashflow	2,024	638	748	708
Cashflow from Investing Activities	2,024	949	748	708
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,517	5,744	(500)	(2,000)
Dividend paid	-	-	(202)	(313)
Others	(1,741)	(1,874)	(1,537)	(1,191)
Cash flow from Financing Activities	(270)	3,824	(2,239)	(3,504)
Chg. in Cash & Bank balance	1,112	(3,865)	(1,666)	(1,386)
Closing cash & balance	11,110	7,244	6,346	4,959

Source Company data, I-Sec research

Exhibit 14: Key ratios

(Year ending March)

	FY23A	FY24A	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.6	(10.0)	20.1	29.5
Adjusted EPS (Diluted)	13.5	(10.0)	20.1	29.5
Cash EPS	22.4	(0.4)	31.7	41.9
Dividend per share (DPS)	-	-	1.3	2.0
Book Value per share (BV)	117.5	107.5	126.3	153.9
Dividend Payout (%)	-	-	6.4	6.7
Growth (%)				
Net Sales	(16.1)	(20.6)	23.9	12.6
EBITDA	(60.9)	(94.5)	2,557.7	26.4
EPS (INR)	(67.2)	(174.5)	(300.4)	47.2
Valuation Ratios (x)				
P/E	50.0	(48.1)	24.0	16.3
P/CEPS	21.5	(1,076.9)	15.2	11.5
P/BV	4.1	4.5	3.8	3.1
EV / EBITDA	15.9	323.3	12.3	9.7
EV/SALES	1.5	2.1	1.7	1.5
Dividend Yield (%)	-	-	0.3	0.4
Operating Ratios				
Gross Profit Margins (%)	35.0	31.0	39.8	40.7
EBITDA Margins (%)	9.5	0.7	14.1	15.9
Effective Tax Rate (%)	7.6	29.8	25.2	25.2
Net Profit Margins (%)	3.1	(4.0)	6.5	8.5
NWC / Total Assets (%)	(33.4)	(25.8)	(16.6)	(9.4)
Net Debt / Equity (x)	(0.1)	0.4	0.4	0.3
Net Debt / EBITDA (x)	(0.4)	28.7	1.2	0.9
Profitability Ratios				
RoCE (%)	11.1	(2.9)	11.2	14.0
RoE (%)	8.6	(8.9)	17.2	21.1
RoIC (%)	21.6	(6.1)	19.0	22.1
Fixed Asset Turnover (x)	1.4	1.0	1.2	1.3
Inventory Turnover Days	47.5	52.9	51.3	52.9
Receivables Days	10.5	17.7	13.6	18.7
Payables Days	137.5	162.4	111.3	92.8

Source Company data, I-Sec research

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