Chemplast Sanmar Ltd

Price Band ₹ 530-541

UNRATED

IPO Review

ICICI Securities – Retail Equity Research

August 10, 2021

Incorporated in 1985, Chemplast Sanmar (CSL) is a specialty chemicals manufacturer in India with focus on specialty paste PVC resin and custom manufacturing of starting materials and intermediates for pharmaceutical, agro-chemical and fine chemicals sectors. CSL is one of India's leading manufacturers of specialty paste PVC resin on the basis of installed production capacity, as of December 31, 2020. In addition, it is also the third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide in South India, on the basis of installed production capacity as of December 31, 2020. It is one of the oldest manufacturers in the chloromethane market in India. CSL has four manufacturing facilities, of which three are in Tamil Nadu at Mettur, Berigai and Cuddalore, while one is in Puducherry at Karaikal.

Focus on developing, improving product portfolio

CSL continues to seek to develop or improve products and processes to meet demands of existing customers, further enhance the performance of specialty products and respond to increasing compliance requirements under environmental regulations. It also believes that specialty products have high barriers to entry and as such provide better operating margins. As a result, it also plans to leverage strong process chemistry and engineering skills to perform custom manufacturing for a range of multinational innovator companies and cater to customers across new industry verticals and in new geographies to grow the business.

Expanding production capacities

Going forward, CSL is proposing to expand operations by (i) increasing the installed production capacity of specialty paste PVC resin by 35 KT; (ii) setting up a multipurpose facility with two blocks for custom manufacturing operations; and (iii) increasing the installed production capacity of suspension PVC resin by 31 KT by de-bottlenecking the suspension PVC resin plant. It also intends to improve operational efficiencies in manufacturing process at the Karaikal facility by de-bottlenecking the caustic soda plant. CSL has committed capital expenditure outlay of ₹ 619.5 crore for these expansion activities.

Key risk & concerns

- Higher RMAT cost, inability to pass on to impact performance
- Loss of customer to impede performance
- Lower end user demand to impact performance

Priced at FY21 EV/EBITDA of 17.9x on upper band

At ₹ 541 (upper band), the stock is priced at 17.9x FY21 EV/EBITDA.

Particulars

Issue Details	Amount
Issue Opens	August 10, 2021
Issue Closes	August 12, 2021
Issue Size (₹ Crore)	3,850
Price Band (₹)	530-541
No of Shares on Offer (Crore)	7.12
Minimum lot size	27
Face Value (₹)	5

Shareholding Pattern (%)

	Pre IPO	Post IPO
Promoter	100.0%	55.0%
Public	0.0%	45.0%
Total	**100.0%**	**100.0%**

Objective of issue ₹ crore

Objects of the issue	₹ Crore
NCD Redemptions	1,238
General Corporate Purpuse	62
Total Fresh issue Proceeds	**1,300**
Total OFS Proceeds	**2,550**

**Upper Band*

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Key Financial Summary

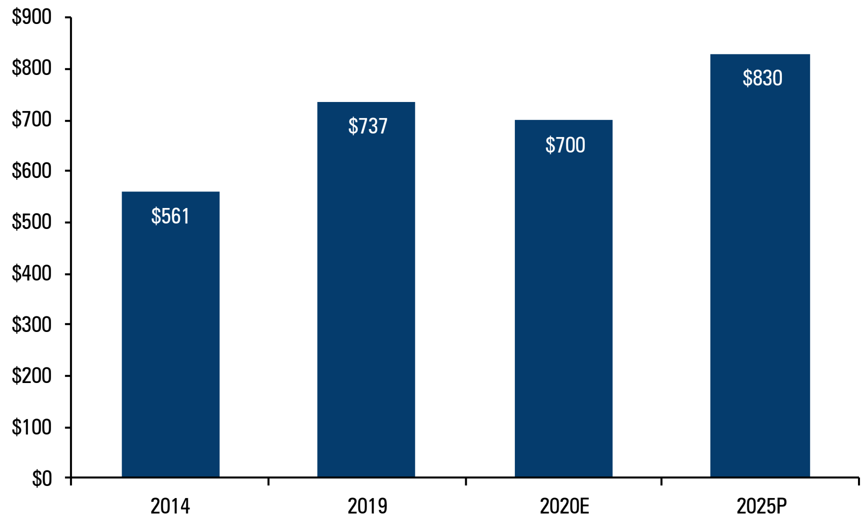
(₹ Crore)	FY19	FY20	FY21	CAGR FY19-21
Net Revenue	1,254.3	1,257.7	3,798.7	74.0%
EBITDA	321.0	312.3	961.5	73.1%
EBITDA Margins (%)	25.6%	24.8%	25.3%	
Adj.PAT	118.5	46.1	410.2	86.1%
Adj. EPS (₹)	7.5	2.9	25.9	
EV/EBITDA	53.7x	55.2x	17.9x	
P/E	14.5x	37.1x	4.2x	
ROE (%)	6.4	2.4	NM	
ROCE (%)	10.3	7.4	50.6	

Source: RHP, ICICI Direct Research.

Industry Overview

The global chemicals market is segregated into basic chemicals, industrial gases, petrochemicals, polymers, speciality chemicals and others. China, Japan and the US are leaders in the chemicals space. Speciality chemicals are low volume, high value chemicals with specific applications. These are classified based on end-user industries. Unlike bulk chemicals, speciality chemicals are used in low quantities and are consumed for specific end-use applications. They are chemical products that are sold on the basis of specific requirement in end-user segments rather than their composition. These chemicals impart a variety of properties to products and have a high degree of value addition.

Exhibit 1: Global speciality chemical market (US$ billion)



Source: RHP, ICICI Direct Research

The chemicals industry supports India's agricultural and industrial development. It provides raw materials, intermediates and process chemicals industries such as for agro chemicals, detergents and soaps, textiles, paper, paints, pharmaceuticals, varnish. Specialty chemicals segment clocked 8-9% CAGR in FY15-20, driven by an increase in domestic consumption from various end-user industries and rising exports. Crisil Research expects this segment to clock 5-6% CAGR in FY20-25, driven by rising domestic consumption and exports. Exports accounts for 35-40% of revenue for key speciality chemicals players in India.

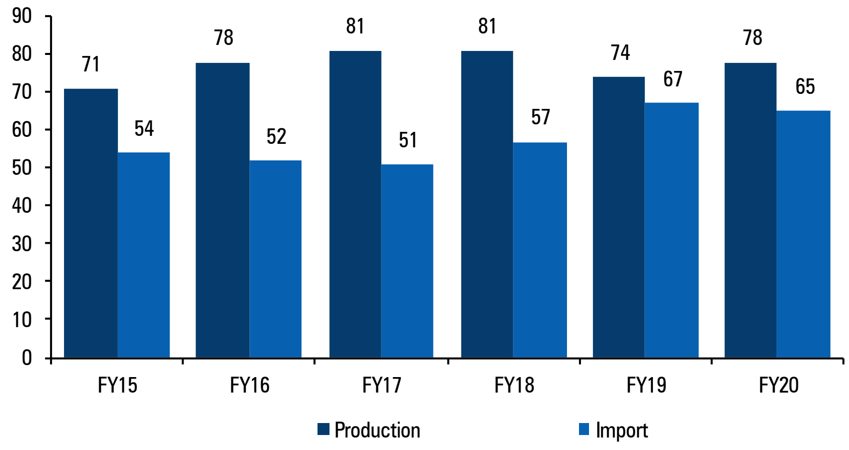
In FY21, the industry witnessed de-growth of 5-6% due to a slowdown in economic activity, which is likely to result in a fall in demand from end use industries. The impact is expected to be significant on segments such as polymer additives, textile chemicals and colorants whereas segments such as agrochemicals, surfactants are likely to lend some support.

Speciality paste PVC resin

The specialty paste PVC resin market size in India was at 143 kilo tons per annum **(KTPA)** in FY20. The market has been growing at a CAGR of 3% in FY15-20, driven by growth in the leather cloth industry, which contributes to 78% of demand. Only two producers in India, viz. The company (capacity 66 KTPA) and Finolex Industries (capacity of 22 KTPA) produce specialty paste PVC resin.

Total production of specialty paste PVC resin in India in FY20 was at 78 KTPA against demand of 143 KTPA. Hence, 45% of the demand was met through imports. Demand is expected to grow at 5-7% CAGR between FY20 and FY25 to 182 KT. With the economy reviving in FY22, we expect demand from various end-user industries to recover. As a result, specialty paste PVC resin demand is expected to rebound 15-17% YoY in FY22, from a sharp drop this financial year. Moreover, demand growth is likely to remain healthy at 6-8% CAGR between FY22 and FY25.

Exhibit 2: Speciality paste PVC resin consumption (in KT)



Source: RHP, ICICI Direct Research

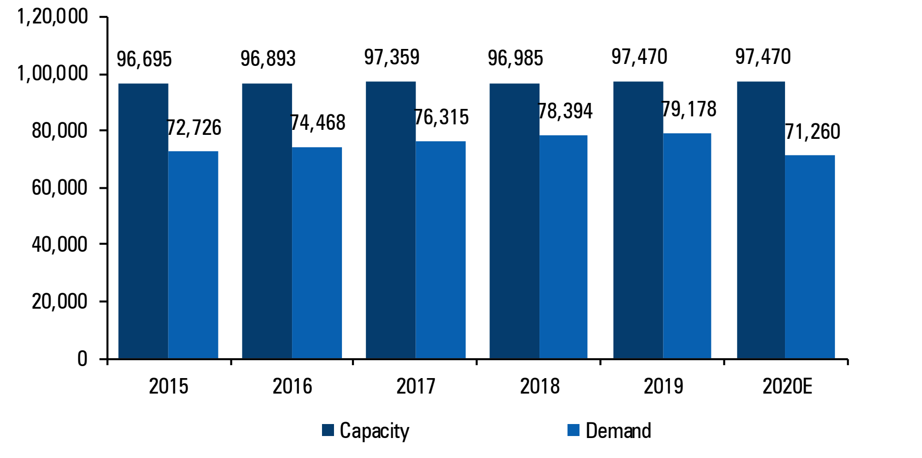
Caustic soda

The global chlor-alkali industry forms a key base for the chemicals industry. Caustic soda is produced using the electrolysis of sodium chloride solution (brine). The processes of producing caustic soda include mercury, diaphragm and membrane. Mercury based capacities have been phased out in most countries on account -of environmental regulations, leaving out a few capacities in Europe and America. However, India has already moved from mercury based capacities to membrane based capacities. The major end-use industries include textiles, chemicals, paper, PVC, water treatment, alumina, soaps and detergents, and chlorinated paraffin wax.

Chlorine is a joint product manufactured along with caustic soda, which is also used in various industries such as PVC manufacturing, water disinfection and pharmaceutical, among other chemical industries. Therefore, most caustic soda manufacturers have downstream capacities integrated to utilise the produced chemicals in further chemical production such as PVC and chloromethanes.

In 2019, global caustic soda demand inched up 1.0-1.5% YoY to 79 million MT (MMT) from 78.3 MMT in 2018, owing to a slowdown in demand in India and China. However, there was some support from aluminium demand from urban housing industries. Additionally, new alumina refinery capacity came on stream in UAE at end-2018, which required around 130,000 tons of additional caustic soda.

Exhibit 3: Trends in global caustic soda demand (KT)



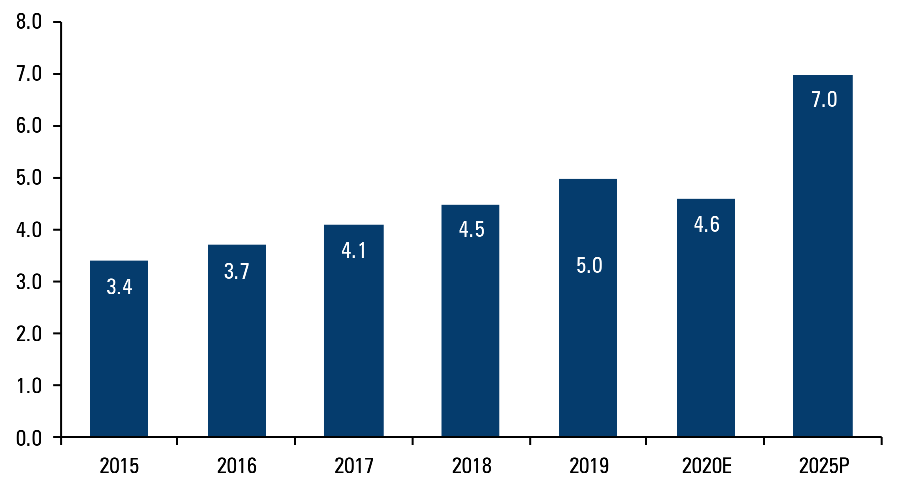
Source: RHP, ICICI Direct Research

Hydrogen peroxide

Hydrogen peroxide is mainly used in the pulp and paper industry for bleaching pulp and deinking recycled paper. It is also used in the textiles, electronics, food & beverages and healthcare industries. Along with peroxyacetic acid, hydrogen peroxide is one of the important components in manufacturing peroxide-based disinfectants. It is also used in various municipal and industrial applications.

Global demand for hydrogen peroxide was estimated at 3.4 million MT in 2015 and has clocked a CAGR of 10%, reaching ~5 million MT in 2019. In value terms, the hydrogen peroxide market size is estimated at $3.8-4 billion in 2019. The Asia-Pacific (APAC) region accounts for the largest share in the overall hydrogen peroxide market, contributing to almost 44% of the overall market. North America comprises 20% of the market. The growing population in APAC region, along with the improving educational system, is expected to drive demand for paper, leading to higher demand for hydrogen peroxide. Rising population and increasing use of disinfectants in Asia-Pacific countries, especially India and China, is also likely to boost demand for hydrogen peroxide.

Exhibit 4: Hydrogen peroxide demand globally (MMT)



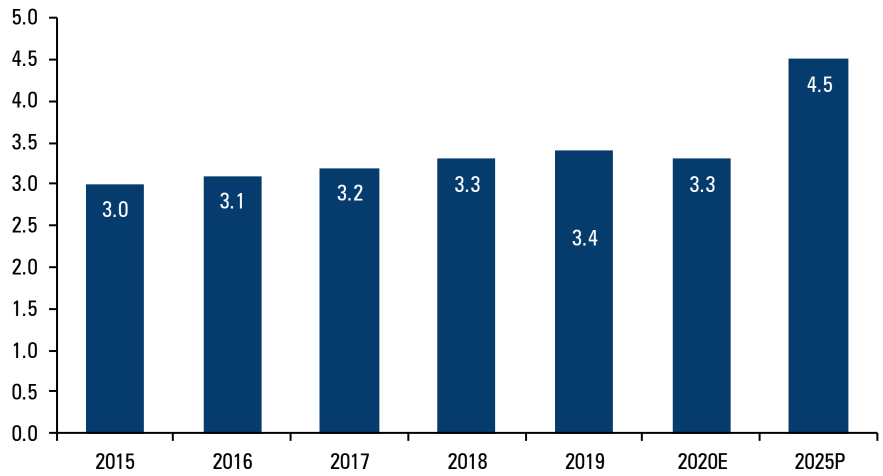
Source: RHP, ICICI Direct Research

Chloromethane

Global demand for chloromethane was at an estimated 2.8-3 million MT in 2015. Demand has grown at a 3-4% CAGR, reaching 3.4 million MT in 2019. Due to their toxic nature, chloromethane is subject to stringent regulations imposed by government bodies such as the US Environmental Protection Agency (EPA) and Registration, Evaluation, Authorisation and Restriction of Chemicals (REACH). Chloromethanes are largely divided into four types of products - methyl chloride, methylene chloride (MDC), and chloroform, carbon tetrachloride (CTC).

In 2020, global chloromethane demand is estimated to have declined by 1-2% YoY, as a result of the Covid-19 pandemic, which led to a sharp decline in demand from key end-user industries such as refrigerants, silicone polymers, etc. However, the decline in demand was restricted due to growth in the pharmaceuticals sector, which continued to grow at a rapid pace. During 2021-25, global demand for chloromethane is expected to clock a CAGR of 4-5%, driven by a revival in various end-user industries, after the Covid-19 pandemic. Demand is expected to be driven by rapid growth in the pharmaceuticals segment. Increased usage in silicone polymers, linked with construction industry, higher usage of HFOs in refrigerants are expected to be key drivers of demand.

Exhibit 5: Global chloromethane demand outlook (MMT)



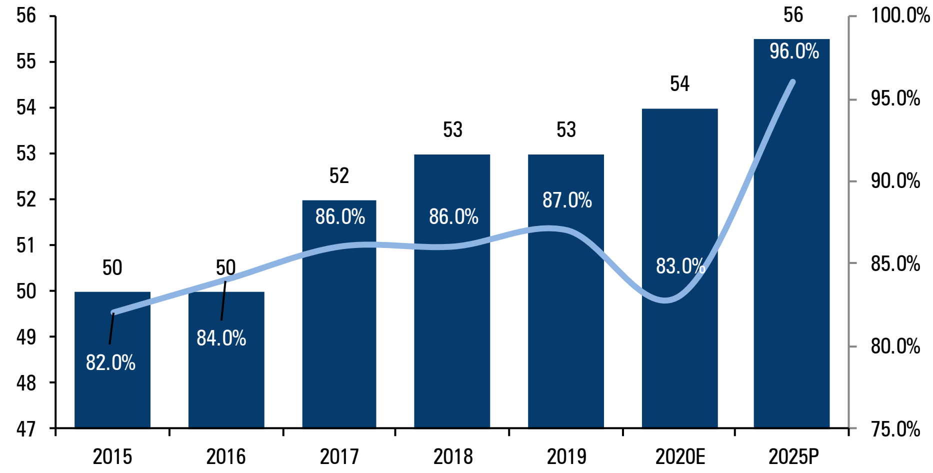
Source: RHP, ICICI Direct Research

Suspension PVC

Suspension PVC (S-PVC) is made either through mass or bulk polymerisation or through suspension polymerisation. S-PVC is used in both rigid and flexible applications. pipes, profiles and roofing sheets are typical examples of rigid applications while flexible hoses, tubings, wires & cables, footwear, calendared sheets and films, extruded films are typical examples of flexible applications.

Global demand for S-PVC was 41 MMT in FY15, which increased at a 3.1% CAGR in 2015-19 to 46 MMT in 2019. Demand for S-PVC in the global market is largely linked to the construction industry and, therefore. economic development. In recent years, S-PVC consumption has been concentrated in the developing Asian economies such as China, India, Vietnam and Indonesia. By region, China accounts for more than 40% of global S-PVC consumption. India is one of the fastest growing large markets for SPVC in the world while other major consuming regions are other Asia-Pacific countries, North America, Western Europe, and the Middle East and Africa (MEA).

Exhibit 6: Global S-PVC capacity (MMT) and utilisation (%)



Source: RHP, ICICI Direct Research

Company background

Chemplast Sanmar is a specialty chemicals manufacturer in India with focus on specialty paste PVC resin and custom manufacturing of starting materials and intermediates for pharmaceutical, agro-chemical and fine chemicals sectors. CSL is one of India's leading manufacturers of specialty paste PVC resin on the basis of installed production capacity, as of December 31, 2020. In addition, it is also the third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide in South India, on the basis of installed production capacity as of December 31, 2020. CSL is one of the oldest manufacturers in the chloromethane market in India. *(Source: Crisil Report).* Pursuant to the CCVL Acquisition, it acquired 100.0% equity interest in CCVL that is the second largest manufacturer of suspension PVC resin in India and the largest manufacturer in the South India region, on the basis of installed production capacity as of December 31, 2020

It has four manufacturing facilities, of which three are in Tamil Nadu at Mettur (**Mettur facility**), Berigai (**Berigai Facility**) and Cuddalore (**Cuddalore Facility**) and one is in Puducherry at Karaikal (**Karaikal facility**). It believes that integrated business model for production of specialty paste PVC resin and chloromethane has been critical to success.

Exhibit 7: Manufacturing facility and capacities

Manufacturing facility	Installed production capacity *(in kt per annum)*	Capacity utilization (%) For Financial Year 2021	For Financial Year 2020	For Financial Year 2019
Mettur Facility				
Specialty paste PVC resin	66	91%	100%	96%
Caustic soda	67	64%	82%	102%
Chloromethanes	35	91%	99%	100%
Hydrogen peroxide	34*	42%	21%	-**
Refrigerant gas	1.70	30%	75%	39%
Karaikal Facility				
Caustic soda	52	36%	57%	65%
Cuddalore Facility				
Suspension PVC resin	300	88%	91%	95%

** The hydrogen peroxide capacity is calculated at 50% concentration level in line with industry standards.*
*** The hydrogen peroxide plant was commissioned in Financial Year 2020.*

Berigai Facility

Capacity*	Financial Year 2021		Financial Year 2020		Financial Year 2019	
	Capacity (in MTPA)	Capacity Utilization (%)	Capacity (in MTPA)	Capacity Utilization (%)	Capacity (in MTPA)	Capacity Utilization (%)
Installed production capacity	1068	62%	1032	64%	900	51%
Operating production capacity**	934	71%	904	74%	785	59%

Source: RHP, ICICI Direct Research

It has a coal-based captive power plant of 48.5 MW at Mettur facility and two natural gas-based captive power plants of 8.5 MW and 3.5 MW respectively, at Karaikal facility. It has also leased a salt field from the Tamil Nadu Government at Vedaranyam, Tamil Nadu. It has approval from the TNPCB to extract up to 400 KT of salt per annum. The lease has expired and the company is in the process of renewing the lease deed.

Investment Rationale

Focus on developing and improving product portfolio

CSL continues to seek to develop or improve products and processes to meet demands of existing customers, further enhance the performance of specialty products and respond to increasing compliance requirements under environmental regulations. It also believes that specialty products have high barriers to entry and as such provide better operating margins. As a result, it also plans to leverage strong process chemistry and engineering skills to perform custom manufacturing for a range of multinational innovator companies and cater to customers across new industry verticals and in new geographies to grow business.

Expanding production capacities

Going forward, it is proposing to expand operations by (i) increasing the installed production capacity of specialty paste PVC resin by 35 kt; (ii) setting up a multipurpose facility with two blocks for custom manufacturing operations; and (iii) increasing installed production capacity of suspension PVC resin by 31 kt by de-bottlenecking the suspension PVC resin plant. It also intends to improve operational efficiencies in manufacturing process at the Karaikal facility by de-bottlenecking the caustic soda plant. To minimise any market disruption from this additional production capacity, these expansions have been well planned and will be rolled out gradually according to strategic business plan in FY22-25. It has committed capital expenditure outlay of ₹ 619.5 crore for these expansion activities.

Improving financial performance through focus on operational efficiencies

It intends to continue to actively manage operating costs to improve margins through various measures, including: de-bottlenecking of facilities to improve operational metrics. For instance, it increased the manufacturing capacity at Cuddalore Facility from 160 KT in FY09 to 300 KT as of March 31, 2021. It is currently increasing the installed production capacity of suspension PVC resin by 31 KT by de-bottlenecking the suspension PVC resin plant at Cuddalore, which is expected to be completed by FY23; continue to focus on selling a significant majority of non-specialty products to customers in south and east India to save on freight costs; sustained measures taken to optimise conversion cost of suspension PVC resin; and leveraging the scale of operations to source raw materials at favourable prices and optimising logistics cost.

Key risks & concerns

- **Higher RMAT cost, inability to pass on to impact performance:** The company's primary raw materials include EDC, VCM, ethylene, methanol and coal, from a limited number of third-party suppliers within and outside India, through sourcing partners. Any delay interruption or reduction in the supply of raw materials to manufacture our products may adversely affect business

- **Loss of customer to impede performance** – Top 10 customers contribute 38% to overall revenue. Loss of customer or lower business growth from large customers owing to intense competition can impede the growth of the business

- **Lower end user demand to impact performance** – The company does not have firmly committed long-term supply agreements with most customers and instead relies on short term purchase orders for volume and other terms of sales of products, from customers. If any amendment or cancellation takes place, it may adversely impact revenue and production schedules

Financial summary

Exhibit 8: Profit and loss statement (₹ crore)

Year end March	FY19	FY20	FY21
Total Operating Income	**1,254.3**	**1,257.7**	**3,798.7**
Growth (%)	-	0.3	202.0
Raw Material Expenses	400.1	421.4	2,123.1
Gross Profit	**854.2**	**836.3**	**1,675.6**
Employee Cost	77.8	82.8	113.6
Other Operating Expenses	455.4	441.2	600.6
EBITDA	**321.0**	**312.3**	**961.5**
Growth (%)	-	-2.7	207.8
Other Income	12.4	7.9	16.4
EBITDA, including OI	**333.5**	**320.2**	**977.8**
Depreciation	56.4	87.4	131.0
Net Interest Exp.	48.3	95.5	433.4
Other exceptional items	0.0	0.0	-15.7
PBT	**228.8**	**137.4**	**397.8**
Total Tax	74.9	25.6	136.9
Tax Rate	32.7%	18.6%	34.4%
PAT	**153.9**	**111.8**	**260.9**
Adj.PAT after Minority interest	118.5	46.1	410.2
Adj. EPS (₹)	7.5	2.9	25.9
Shares Outstanding	15.8	15.8	15.8

Source: RHP, ICICI Direct Research

Exhibit 9: Cash flow statement (₹ crore)

Year end March	FY19	FY20	FY21
PBT & Extraordinary	193.4	71.7	562.9
Depreciation	56.4	87.4	131.0
After other adjustments			
(Inc) / Dec in Working Capital	-39.1	-111.9	48.0
Taxes	-55.2	-38.7	-60.5
Others	78.7	157.6	395.1
CF from operating activities	**234.2**	**166.1**	**1,076.4**
Purchase of Fixed Assets	-60.0	-50.4	-55.4
Others	-250.9	-387.3	2,207.0
CF from investing activities	**-310.9**	**-437.7**	**2,151.6**
Proceeds from issue of shares			
Borrowings (Net)	46.0	1,062.3	-167.2
Others	-49.3	-764.1	-2,849.5
CF from financing activities	**-3.3**	**298.1**	**-3,016.7**
Net cash flow	-80.0	26.5	211.3
Effects of foreign currency translation			
Opening Cash & Bank	128.8	52.2	112.7
Closing Cash & Bank	**52.2**	**112.7**	**651.3**

Source: RHP, ICICI Direct Research

Exhibit 10: Balance sheet (₹ crore)

Year end March	FY19	FY20	FY21
Liabilities			
Share Capital	67.0	67.0	67.0
Reserves	1,795.2	1,845.5	-451.1
Total Shareholders Funds	**1,862.3**	**1,912.5**	**-384.1**
Minority Interest	0.0	0.0	0.0
Long Term Borrowings	676.8	1,206.7	2,058.9
Net Deferred Tax liability	533.9	506.7	759.1
Other long term liabilities	78.5	70.5	75.9
Long-term provisions	5.2	5.6	17.4
Current Liabilities and Provisions			
Short term borrowings	153.4	47.7	0.0
Trade Payables	219.7	216.0	1,656.1
Other Current Liabilities	271.7	141.9	302.8
Short Term Provisions	0.0	0.0	0.0
Total Current Liabilities	644.9	405.6	1,958.9
Total Liabilities	**3,801.6**	**4,107.5**	**4,486.1**
Assets			
Net Block	2,087.1	2,156.3	3,132.6
Capital Work in Progress	117.2	8.4	25.1
Non-current investments	1,158.8	1,457.5	0.0
Other Non Current Assets	61.7	42.7	53.7
Current Assets, Loans & Advances			
Current Investments	0.0	0.0	0.0
Inventories	200.3	181.8	407.1
Sundry Debtors	66.9	48.2	73.9
Cash and Bank	52.2	112.7	651.3
Loans and Advances	28.9	80.8	89.2
Other Current assets	28.3	19.1	53.2
Current Assets	376.7	442.6	1,274.7
Total Assets	**3,801.6**	**4,107.5**	**4,486.1**

Source: RHP, ICICI Direct Research

Exhibit 11: Key ratios

Year end March	FY19	FY20	FY21
Per share data (₹)			
Adj. EPS	7.5	2.9	25.9
Adj. Cash EPS	11.1	8.4	34.2
BV	200.0	203.2	57.9
DPS	0.0	0.0	0.0
Operating Ratios (%)			
Gross Margin (%)	68.1	66.5	44.1
EBITDA Margin (%)	25.6	24.8	25.3
PAT Margin (%)	9.4	3.7	10.8
Debtor Days	19	14	7
Inventory Days	58	53	39
Creditor Days	64	63	159
Cash Conversion Cycle	14	4	(113)
Return Ratios (%)			
Return on Assets (%)	3.1	1.1	9.1
RoCE (%)	10.3	7.4	50.6
Core RoIC (%)	10.0	7.4	81.1
RoE (%)	6.4	2.4	NM
Solvency Ratios			
Total Debt / Equity	0.4	0.7	(5.4)
Interest Coverage	5.7	2.4	2.0
Current Ratio	0.6	1.1	0.7
Quick Ratio	0.3	0.6	0.4
Valuation Ratios (x)			
EV/EBITDA	53.7	55.2	17.9
P/E	14.5	37.1	4.2
P/B	0.5	0.5	1.9
EV/Sales	13.7	13.7	4.5

Source: RHP, ICICI Direct Research

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ANALYST CERTIFICATION

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