

Equity Research Desk



ALPHA

07 JUL 2022

Chemplast Sanmar Ltd. – PVC Resin Player

Market Data	
CMP	Rs. 493
Date	07-Jul-22
Target Price	Rs. 580
Upside Potential	18.00%
52 Week High/Low	826/383
Market Cap	Small Cap
Sector	Chemicals
Rating	Buy

Chemplast Sanmar Ltd., part of the South India based Sanmar Group, is among the leading PVC and specialty chemicals manufacturer in India where it started operations in 1967 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 and it is also the third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide in South India. 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. 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).



Products & Services: The company has three segments which produces products used for various applications.

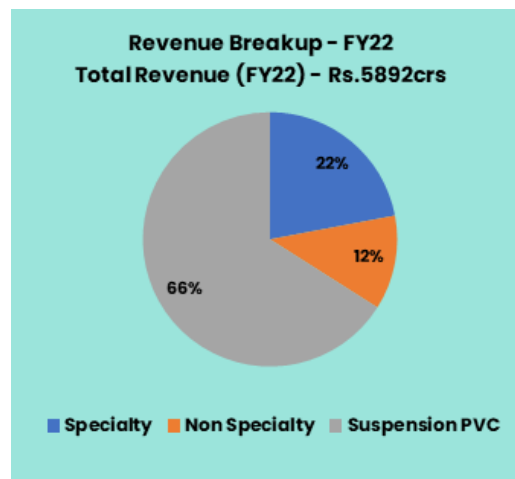
Specialty Chemicals – Specialty Paste PVC resin comes under specialty chemicals which is used in multiple industries like Footwear, Automobile, Leather, Mats, etc. Custom Manufacturing division also comes under the same segment with end applications like Pharma, Agrochemicals, API, etc.

Non-Specialty Chemicals – Caustic Soda, Hydrogen peroxide, etc. used in the end industries like Paper, Textile, Disinfectants, Pharma, Refrigerants, etc.

Suspension PVC – This product comes under the subsidiary CCVL which is used in the Irrigation, Real Estate and other industries.

SHP	Mar - 22 (%)	Dec - 21 (%)	Change
Promoters	54.99	54.99	0.00
FPI	7.88	7.51	0.37
DII	27.63	28.07	-0.44
Public & Others	9.50	9.42	0.08
Pledged	0.00	0.00	0.00

Subsidiaries: As on 31st Mar 2022, the company has only one subsidiary named Chemplast Cuddalore Vinyls Ltd (CCVL).



Margins - FY22	
Gross	37%
EBITDA	20%
PAT	11%



Key Rationale

- **Strong Market Position** – CSL's business benefits from its established market position in India in the PVC (paste and suspension) segment and in the chlor alkali business in South India. The company is the largest player in the domestic specialty paste PVC resin business (~80% market share basis production capacity and ~45% considering imports) and second largest player in the suspension PVC business (~20% market share basis production capacity and ~10% considering imports). Revenues also benefit from diversity in product segments with ~66% of revenues derived from suspension PVC, ~20% from specialty paste PVC resin and balance ~14% from chemicals (chlor alkali and custom manufactured chemicals). In addition to Suspension PVC and speciality Paste PVC, CSL also manufactures caustic soda (8% of revenues) chloro-methanes, refrigerant gases and hydrogen peroxide. Besides, the company also undertakes complex custom manufacturing chemicals of starting materials and intermediates for consumption by life sciences and fine chemical sectors, adding to its business diversity.
- **Experienced Promoter Group** – The Sanmar Group has been engaged in the manufacturing of chemicals and PVC sectors for over five decades. The Group also has presence in shipping and engineering sectors through other entities. The promoters have scaled up the domestic PVC/chemicals business to over USD 500 million and is an established player in the domestic markets for its products. The Sanmar group also ventured in the international markets through an acquisition in Egypt (TCI Sanmar S.A.E, TCIS) in 2007 and has expanded the entity to being a major PVC and chlor alkali player in the MENA region. The group's PVC/chemicals business has consolidated revenues of over USD 1 billion, making the group a major player in this space. This has also enabled the Group to attract investments from marquee investors like Fairfax Group and same was also evident in the recently concluded IPO of CSL wherein it raised Rs.3850 crs.
- **Expansion** – The company is going to make a capex of around Rs.600-700crs for multiple expansions. It is going to expand the installed production capacity of specialty paste PVC resin by 41 kt with a cost of around Rs.360 crs followed by a multipurpose facility setup with 2 blocks at Rs.340crs where the 1st phase is slated to be completed by Q1FY24 and finally, the de-bottlenecking of suspension PVC resin capacity by 31 kt which Expected to come fully Online by Q1FY23.
- **Financial Performance** – The sales grew at a CAGR of 67% for the period of FY20-22 and the profit after tax grew at a CAGR of 75% for the same period. The cash and equivalents nearly doubled from Rs.650 crs in FY21 to Rs.1230crs in FY22. The ROE and ROCE of the company has improved on account of increase in profitability.

**Ratios - FY22**

ROE	39%
ROCE	37%
Div. Yield	0.00%
PE Ratio	12.00
Face Value	5.00
EPS	Rs. 41.03

Industry Analysis

Covering more than 80,000 commercial products, India's chemical industry is extremely diversified and can be broadly classified into bulk chemicals, specialty chemicals, agrochemicals, petrochemicals, polymers and fertilisers. 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. 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. Demand is expected to grow at 5-7% CAGR between FY20 and FY25 to 182 KT. 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.

Growth Drivers

100% FDI is allowed under the automatic route in the chemicals sector with few exceptions that include hazardous chemicals. FDI inflows in the chemicals sector (other than fertilisers) reached US\$ 19.09 billion between April 2000 to December 2021.

The US-China Trade war and Covid-19 pandemic have propelled companies across the globe towards adopting the "China plus one" strategy to diversify supply risk. This has served as a great opportunity for Indian manufacturers in gaining cost advantage over their Chinese counterparts.

The Government of India is considering launching a production linked incentive (PLI) scheme in the chemical sector to boost domestic manufacturing and exports.



Peer Analysis

Competitors: Finolex Industries Ltd., Navin Fluorine International Ltd., etc.

There is no direct peer comparison because Chemplast (capacity 66 KTPA) and Finolex Industries (capacity of 22 KTPA) are the only two producers in India to produce specialty paste PVC resin. Since this is not the only business segment for both the companies, they can't be compared with their other business segments as they are on the extreme end. Around 45% of India's specialty paste PVC resins is being met by imports and the capacity expansion is expected improve its availability in India and benefit CSL. The specialty chemical segment of Chemplast can be compared with Navin Fluorine Intl. On the whole, Chemplast is on the upper side with its fundamentals improving for the past 3 years.

Company	CMP	Mcap.	ROE	ROCE	P/E	EPS
Chemplast	493	7810	39.00%	37.00%	12	41.03
Finolex Inds.	139	8652	21.00%	26.00%	8	16.94
Navin Fluo.	3776	18709	15.00%	18.00%	71	53.09

Outlook

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. Two out of the company's three segments have backward integration facilities. CSL's plant at Mettur for manufacturing of specialty paste PVC resin and chlor alkalis is highly integrated with captive salt mines and captive power plant to meet requirements for its chlor alkali business. The integrated nature of operations enhances its operating efficiencies relative to its peers.



Valuation

Strong revenue growth and sustenance of operating margins at ~18-20%, supported by better revenue diversity and increased contribution from Custom Manufactured Chemicals segment, leading to higher than anticipated cash generation. We recommend a BUY rating in the stock with the target price (TP) of Rs.580, 14x FY24E EPS.

Risks

- **Client Concentration Risk** – 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.
- **Cyclical Risk** – Profitability of PVC and chlor alkali manufacturing companies depends on the prevailing PVC and ECU prices. Cyclical downturns have resulted in variations in operating profitability in the past for these players including CSL.
- **Product Concentration Risk** – CLS derives a significant portion of its revenues from the sale of specialty paste PVC resin and any reduction in the demand for specialty paste PVC resin could have an adverse effect on the business, results of operations, cash flows and financial condition.

Source – Tickertape, Company's Website, BSE Website.

Thanks & Regards

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