ArihantCapital
Generating Wealth

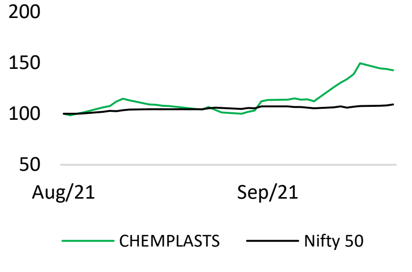
Management Call Highlights
14th October 2021

Chemplast Sanmar Limited

CMP: INR 765	
Outlook: Positive	
Stock Info	
BSE	543336
NSE	CHEMPLASTS
Sector	Speciality Chemicals
Face Value (INR)	5
Equity Capital (INR Cr)	67.04
Mkt Cap (INR Cr)	12,116
52w H/L (INR)	826 / 510
Avg Yearly Vol (in 000')	1889

Shareholding Pattern % *(As on August, 2021)*	
Promoters	54.99
DII	23.61
FIIs	10.05
Others	11.35

CHEMPLASTS Vs Nifty



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Chemplast Sanmar Ltd. (CSL) is a specialty chemicals manufacturer in India with focus on specialty paste PVC resin and custom manufacturing of starting materials and intermediates for pharmaceuticals, agrochemical and fine chemical 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, CSL is also the third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide, each in the States of Tamil Nadu, Karnataka, Telangana, Andhra Pradesh, Kerala and Union Territory of Puducherry on the basis of installed production capacity as of December 31, 2020 and one of the oldest manufacturers in the chloromethane market in India. CSL has four manufacturing facilities at Mettur, Berigai and Cuddalore in Tamil Nadu and Karaikal in Puducherry.

Management Call Key TakeAways

- There has been a decline in the supply of specialty paste PVC resin product. About 10% of the manufacturing capacity has gone out of the market.
- Industry operating rates have increased above 90% as companies try to capitalize on the demand growth.
- There is no significant capacity addition expected to come on board. Therefore, the tightness will continue in the market, both in the long and short term.
- Other short term temporary factors driving the market imbalance in specialty paste PVC resin, include the impact of hurricane, rising gas prices, situation and environment policies in China. However, the market has structurally changed in the long term which will support growth of companies in the sector.
- In the suspension PVC resin segment also, the demand is outstripping supply. The company believes a large capacity has been phased out of China.
- In the short term, price realizations in the suspension PVC segment may continue to be higher. Margins are also expected to be higher going forward.
- The industry expects the beginning of a PVC super cycle after consolidating for a few years. As a result, margins are expected to increase significantly or atleast double from the historical levels.
- In the custom manufacturing segment, the company will benefit from China plus one strategy as countries search for alternative suppliers.
- Chemplast has built strong relationship with clients over the years and is confident of gaining from China plus one strategy and become a preferred supplier for most clients.
- In the caustic soda segment, prices have almost doubled compared to 2020. Price realizations and demand will benefit the company.
- The growth has taken various initiatives which will act as levers for growth.
- The company is increasing the installed production capacity of specialty paste PVC resin by 35 kt at Cuddalore.
- In the custom manufacturing segment, it is setting up two blocks of multipurpose facilities.

- It will increase the installed production capacity of suspension PVC resin by 31 kt at Cuddalore by de-bottlenecking the suspension PVC resin plant.
- The company will also benefit from the recovery of volumes lost last year due to COIVD-19 pandemic.
- It has a strategic advantage of possessing land and related infrastructure, which it can use to ramp up or utilize for future growth.
- Net debt on the books of the company is very low.
- The company expects to generate strong cash flows going forward supported by higher price realization and operating margins. It will utilize the cash flow to drive future growth as the net debt is insignificant.
- It has market leadership position in the PVC segment and is among the top 3 players in other products. Each of the product segment has significant barrier to entry.
- The company has implemented a strong supply chain mechanism for materials such as ethylene and ethylene dichloride.
- Manufacturing operations are integrated with manufacture of certain raw materials along with a strong management team with decades of experience in the company.
- In FY21, the company generated about INR 3,800 Cr of sales, while operating profit stood around INR 978 Cr. Normalized operating profit was about INR 871 Cr with margins of 23%. The company is very positive on growth emerging from capacity expansion, debottlenecking and tight demand-supply situation.
- There is no effective substitute for PVC. The prices have increased in recent months. The input prices (Vinyl Chloride Monomer) have also increased but not to the extent of PVC prices.
- There are about 35 companies who manufacture PVC with 4-5 companies who can licence technology.
- Regionally, Japan is ageing which will impact demand. Also a PVC unit has shut down. In China, these facilities are slowly being phased out. There are some capacities coming on board but it is insignificant compared to capacities being phased out.
- Europe is not competitive in PVC, while there is oversupply in domestic market in US, leading to imports.
- The power plant at Mettur is coal based, while at Kariakal, it is 60% gas based with long term contract with GAIL. The recent increase in coal prices can increase cost dynamics at the Mettur facility. However, caustic soda is manufactured at the site and the higher prices of caustic soda would compensate the rise in coal prices of the power plant.
- In terms of sales mix, PVC forms 100% of revenue for Chemplast Cuddalore Vinyls Ltd. (CCVL). At Chemplast Sanmar Ltd, 45% revenue is attributed to specialty chemicals, 14-15% to custom manufacturing and rest by other products including chloromethanes, caustic soda, hydrogen peroxide.
- The short term factors leading to price increase in PVC can last for a couple of quarters. However, long term structural changes in the industry will remain.
- At the end of first half of FY2022, realizations and margins are expected to be higher.
- In suspension PVC, the company does not have long term contracts. The products are sold after signing MoU with the client. Some products are also sold on spot basis.
- In terms of raw material, the company sources VCM from Mitsubishi through rolling 1-year contract.
- The company does not have client concentration risk and has a diversified clientele.
- Also, it has the benefit of passing any increase in raw material cost to its customers.
- In H1FY22, Chemplast Cuddalore Vinyls Ltd. (CCVL) and the holding company, Chemplast Sanmar Ltd., together saw production increase of about 30-35% on YoY basis.

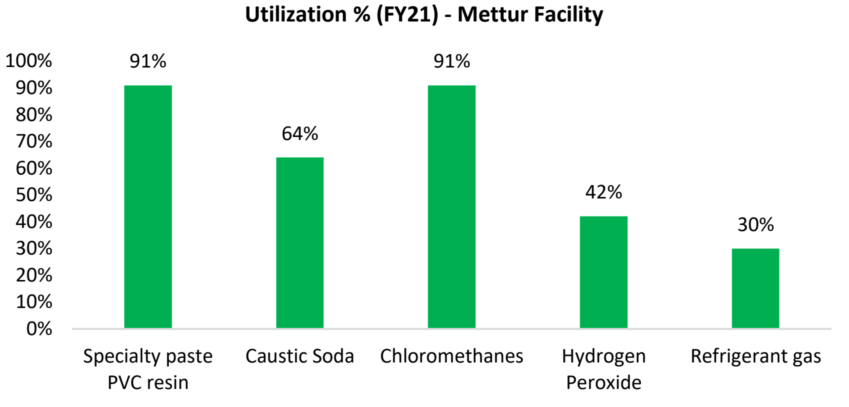
in INR Cr	FY19	FY20	FY21
Revenue	**1,254**	**1,258**	**3,799**
EBITDA	**321**	**312**	**961**
EBITDA Margin (%)	25.6	24.8	25.3
PAT	**118**	**46**	**410**
PAT Margin (%)	9.4	3.7	10.8
EPS (INR)	**7.5**	**2.9**	**25.9**

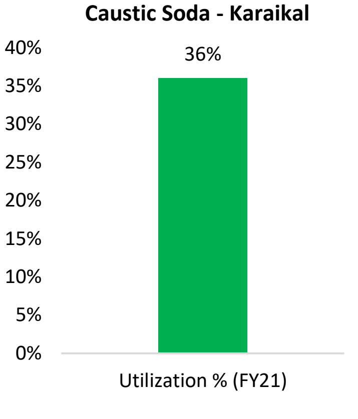
Source: Arihant Research, Company Filings

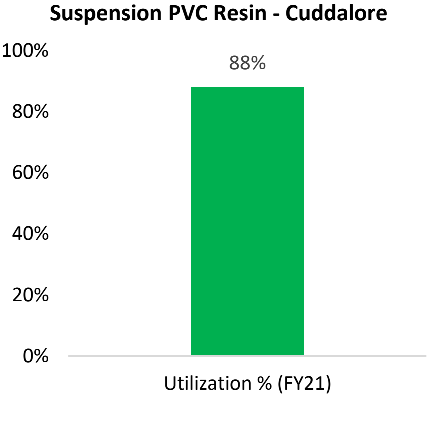
Outlook & View:

We had recommended the stock at INR 552 per share and it has appreciated by ~39%. At the CMP of INR 765 per share, the stock is trading at a P/E multiple of 29.5x its FY21 EPS of INR 25.9. The company has leadership position in most of its products. It will benefit from short and long term disruption in the industry, which will support demand growth. Chemplast is proactively undertaking capacity expansion and debottlenecking exercise to take advantage of the opportunity. Higher realizations will also facilitate operating margin expansion for the company. Accordingly, we continue to maintain a positive stance on the company.

Story in Charts







Source: Company filings, Arihant Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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