

**Q1FY25 Pricing improvement
reflected in margins**

CMP: INR 561

Rating: Buy

Target Price: INR 673

Stock Info

BSE	543336
NSE	CHEMPLASTS
Bloomberg	CHEMPLAST:IN
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	791
Mkt Cap (INR Bn)	82.85
52w H/L (INR)	634/403
Avg Yearly Volume (in 000')	270

Shareholding Pattern %

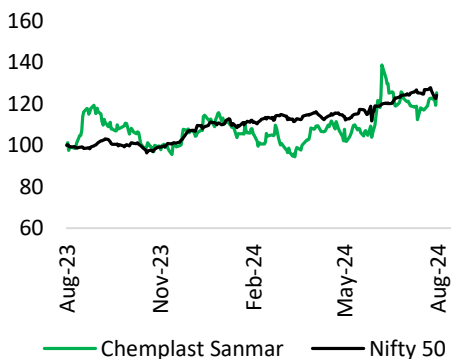
(As on June, 2024)

Promoters	54.99
FIIIs	11.27
DIIIs	28.39
Public & Others	5.35

Stock Performance (%) 1m 6m 12m

Chemplast Sanmar	-3.8%	10.8%	16.9%
NIFTY	-0.8%	11.0%	23.2%

Chemplast Sanmar vs Nifty 50



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Chemplast Sanmar Ltd. reported Net Profits of INR 239 mn in Q1FY25 after 2 consecutive quarters of losses and Net Loss of INR 311 mn in Q4FY24 and INR 640 mn in Q1FY24. The improvement in margins was a reflection of the increase in Paste PVC prices after the Union Government announced in June 2024 of imposition of Import Duty on Paste PVC resin imports from 5 east Asian nations including China. The feedstock prices (VCM & EDC) followed the Paste PVC prices, and therefore benefitted Chemplast Sanmar. On the Custom Manufacturing business segment, the company informed of signing of their 5th Letter of Intent over the last 20 months with an Agro-chemical Innovator for an Active Ingredient for duration of 5 years. After completing expansions in the Specialty Paste PVC resin facility and Phase 1 of the Custom Manufacturing, the Phase 2 of the Multi-purpose plant of Custom Manufacturing is being approved by the Company's Board with a capex of INR 1.6 bn.

CMC segment to drive growth and pull the margins up while PVC segment will drive the medium term growth

Overall improvement on sequential basis as prices start to stabilize

Revenue for Q1FY25 came at INR 11,449 mn (up 8.96% QoQ / up 14.9% YoY). The growth was mainly driven by increase in sales volumes of Specialty Chemicals by 39.8% QoQ & Value Added Chemicals by almost 9.6% QoQ. EBITDA came at INR 1,241 mn (against INR 210 mn in Q4FY24 and negative EBITDA of INR 345 mn in Q1FY24). EBITDA Margins stood at 10.8% in Q1FY25 (up 884 bps QoQ/ up 1,430 bps YoY). Net Profit reported was at INR 239 mn (against Net Loss of INR 311 mn in Q4FY24 & INR 640 mn in Q1FY24).

Previous year's Capex in both Specialty paste PVC and CMC segment will drive future growth and improve margins

The Company successfully commissioned 41,000 tonnes Paste PVC expansion project during Q4FY24. New products from this plant have been well received by customers and will ramp up new capacity added. The Company's Board approved the Phase 2 expansion project of CMC and is expected to complete in Q2FY25. The Company has recently signed their 5th LOI with an agrochemical innovator for an advance intermediate for a duration of 5 years.

PVC prices have seen improvement while demand remains strong

During Q1FY24, the Paste PVC prices were lower against previous quarter's price levels, and that primarily benefitted Chemplast Sanmar in terms of margins. Going ahead, the Management expressed concern of the industry players regarding the import of Paste PVC from Europe, for which they have petitioned with the Government to include European suppliers and countries as well in the list for imposition of Import duty.

Outlook and Valuation:

Custom Manufacturing chemicals segment has been expanding sequentially and is expected to complete by Q2FY25. The recent capacity expansions along with LOIs in hand indicate significant growth going forward for the company along with margin improvement. As PVC prices are seen to be stable but at lower levels, Specialty Paste PVC segment will see gradual improvements as they are in line with their expansion plans. We maintain our "BUY" rating with Target Price of INR 673 per share based on SOTP; with an upside of 28% (earlier Buy rating, TP INR 682).

Financial Performance:

Summary (INR Mn)	FY24	FY25E	FY26E	FY27E
Net Sales	39,230	52,335	60,226	66,248
EBIDTA	258	11,037	14,457	15,902
Net Profit	-1,584	6,890	9,669	10,636
Diluted EPS	-10.02	43.58	61.15	67.27
P/E (x)	-55.99	12.87	9.17	8.34
EV/EBIDTA (x)	357.90	7.97	5.20	3.94
ROE (%)	-9.32	28.84	28.81	24.07
Debt/Equity (x)	0.91	0.39	0.28	0.22

Particulars (INR Mns)	Q1FY25	Q4FY24	Q1FY24	QoQ	YoY
Revenue from operations	11,449	10,507	9,964	8.96%	14.90%
COGS	6,846	7,237	7,250	-5.40%	-5.57%
Gross Profit	4,603	3,271	2,714	40.74%	69.58%
<i>Gross Profit Margins</i>	<i>40.21%</i>	<i>31.13%</i>	<i>27.24%</i>	<i>908bps</i>	<i>1296bps</i>
Expenses					
Employee Benefits Expenses	583.3	510.5	381.5	14.26%	52.90%
Other Expenses	2,779	2,550	2,678	8.97%	3.77%
EBITDA	1,241	210	-345	491.47%	-459.47%
<i>EBITDA Margins</i>	<i>10.84%</i>	<i>2.00%</i>	<i>-3.46%</i>	<i>884bps</i>	<i>1430bps</i>
Other Income	115	126.2	179.7	-8.87%	-36.00%
EBITDA (incl. OI)	1,356	336	-166	303.54%	-919.27%
<i>EBITDA Margins</i>	<i>11.84%</i>	<i>3.20%</i>	<i>-1.66%</i>	<i>865bps</i>	<i>1350bps</i>
Depreciation	447.1	459.7	324.5	-2.74%	37.78%
EBIT	909	-124	-490	-834.68%	-285.47%
EBIT Margins	7.94%	-1.18%	-4.92%	912bps	1286bps
Finance Cost	586.5	509.5	441.6	15.11%	32.81%
PBT	322	-633	-932	-150.90%	-134.60%
Exceptional Items	0	0	0		
Profit Before Tax	322	-633	-932	-150.90%	-134.60%
Tax Expenses	83.4	-321.9	-291.9	-125.91%	-128.57%
PAT	238.90	-311.30	-639.70	-176.74%	-137.35%

Q1FY25 – Key Concall Highlights

Guidance:

- The Management extended their previous guidance of achieving INR 10 bn of revenue by FY27, which they now say that they will be able to surpass, i.e, the Company will have more than INR +10 bn revenues.
- The Management said that the prices of paste PVC have come down sharply in Q2FY25, and it will have an impact on the earnings of Chemplast for Q2FY25. However, they say that over the long term, these import duties are good for the long term.

Concall Highlights**Industry outlook –**

- Revenue came at INR 11,449 mn against our estimates of INR 13,115 mn, up 8.96% QoQ/ up 14.9% YoY.
- EBITDA came at INR 1,241 mn against our estimates of INR 2,109 mn, up 491.5% QoQ/ and EBITDA negative INR 345 mn in Q1FY24.
- EBITDA Margins came at 10.84% for Q1FY25 against our estimates of INR 16.1%, up 884 bps QoQ / up 1,430 bps YoY.
- Net Profit came at INR 239 mn, against our estimates of INR 1,212 mn, and against a Net Loss of INR 311 mn in Q4FY24 and INR 640 mn in Q1FY24.
- Current Net debt is around INR 5.6 bn and the company is carrying a cash of INR 8 bn.
- The Management acknowledged that the start of FY25 has been robust for the company on account of the uptrend in the Paste PVC prices primarily driven by higher Freight rates along with Specialty Paste PVC and Suspension PVC prices.
- The Management sighed relief on the fact that the Government imposed Provisional Anti-dumping duties for a period of 6 months on the imports of Paste PVC from countries such as Norway, Thailand Malaysia, Taiwan & China.
- The Company's Specialty division's volumes increased by 44% YoY due to commissioning of new Paste PVC capacity in the Q4FY24.
- The Management is witnessing a surge of imports from EU & Japan of Paste PVC over the last few months, and hence, the Industry has filed a petition to protect against the dumping by EU and Japan.
- The Company has signed a new Letter of Intent (LoI) with a global Agricultural Innovator for an advanced intermediate of an active ingredient. The LoI covers a period of 5 years.
- Phase 2 of the Custom manufacturing Chemicals division is expected to be completed by the Oct 2025.
- The Company's Board has approved an Investment of INR 1.6 bn for increasing the production capacity of Custom Manufactured chemicals.
- The Value Added Chemicals revenue increased by 20% as compared to Q1FY24 on account improved sales volume due to subdued prices.
- As per the Management, in chlorometers, the domestic capacity continues to remain in excess of demand, resulting in weak prices.
- In Caustic Soda, domestic demand has shown signs of an uptick in Q2FY25.
- Suspension PVC revenue has been stable in Q1FY25 as compared to Q1FY24 while it has improved by 8% sequentially.
- The Company witnessed a positive swing in profits in the current quarter on account of both improved prices of suspension PVC and lower feedstock prices largely due to a severe container shortage for cargo originating from Northeast Asia, in particular China, which briefly increased the prices of Indian imported suspension dresses.
- The Management said that the destocking is happening across the chemical industry but on a gradual basis.
- The Company has signed a Commercial order for a new product, and it will be manufactured in the MPP 3 or the new Production block.
- Clarifying on the nature of Custom manufacturing contracts, the Management said that these contracts generally have some minimum payment amount commitment, and rarely any commitment of any volumes.

Financial Statements

Profit & Loss Statement (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	49,411	39,230	56,259	65,100	71,610
% Growth	-16.1%	-20.6%	43.4%	15.7%	10.0%
Employee Costs	1,472	1,702	1,953	2,240	2,464
Operating & Other Expenses	43,257	37,269	43,978	48,901	53,791
EBITDA	4,681	258	10,327	13,958	15,354
EBITDA Margin %	9.5%	0.7%	18.4%	21.4%	21.4%
Depreciation	1,420	1,514	1,812	1,861	2,047
Other Income	799	805	844	976	1,074
EBIT	4,060	(450)	9,359	13,074	14,381
Finance Cost	1,540	1,805	1,409	1,430	1,573
Exceptional Items	(805)	-	-	-	-
PBT	1,715	(2,256)	7,950	11,644	12,808
Income Tax	192	(671)	1,590	2,329	2,562
PAT	1,524	(1,584)	6,360	9,315	10,247
PAT Margin %	3.1%	-4.0%	11.3%	14.3%	14.3%

Source: Company, Aриhant Capital Research

Balance Sheet (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
ASSETS					
Inventories	6,431	5,686	6,628	7,313	8,044
Trade Receivables	1,426	1,901	1,541	1,784	1,962
Cash & Bank Balance	11,919	8,012	10,125	22,585	34,670
Other Current Assets	1,680	2,811	1,680	1,680	1,680
Total Non-Current Assets	36,911	41,893	41,593	40,983	40,443
Total Assets	58,368	60,303	61,568	74,344	86,799
EQUITY AND LIABILITIES					
Equity Share Capital	791	791	791	791	791
Other Equity	17,794	16,215	22,570	31,885	42,131
Net Worth	18,585	17,006	23,360	32,675	42,922
Borrowings	10,192	15,475	9,507	9,647	9,751
Other Non-Current Liabilities	8,066	7,429	8,066	8,066	8,066
Trade Payables	18,615	17,458	17,725	21,046	23,151
Other Current Liabilities	2,910	2,935	2,910	2,910	2,910
Total Equity & Liabilities	58,368	60,303	61,568	74,344	86,799

Source: Company, Aриhant Capital Research

Financial Statements

Cash Flow (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,715	(2,256)	7,950	11,644	12,808
Operating Profit before WC Changes	4,610	218	10,045	13,672	14,806
Operating Profit after WC Changes	4,488	(2,249)	9,731	16,066	16,001
Tax Paid	(934)	(201)	(1,590)	(2,329)	(2,562)
Cash Flow from Operating Activities	3,554	(2,449)	8,141	13,737	13,439
Cash Flow from Investing Activities	(2,172)	(5,240)	1,087	(273)	(301)
Cash Flow from Financing Activities	(270)	3,824	(7,156)	(1,004)	(1,053)
Net Change in Cash & Cash Equivalents	1,112	(3,865)	2,072	12,460	12,085
Opening Cash & Cash Equivalents	9,998	11,110	7,244	9,316	21,776
Closing Cash & Cash Equivalents	11,110	7,244	9,316	21,776	33,861

Source: Company, Arianth Capital Research

Key Ratios	FY23A	FY24A	FY25E	FY26E	FY27E
Per Share (INR)					
EPS	9.6	-10.0	40.2	58.9	64.8
BVPS	117.5	107.5	147.7	206.6	271.5
Valuation (x)					
P/E	49.9	-48.0	12.0	8.2	7.4
P/BV	4.1	4.5	3.3	2.3	1.8
EV/EBITDA	23.6	426.7	10.7	7.9	7.2
Return Ratios (%)					
Gross Margin	35.0%	31.0%	45.6%	47.0%	47.0%
EBITDA Margin	9.5%	0.7%	18.4%	21.4%	21.4%
PAT Margin	3.1%	-4.0%	11.3%	14.3%	14.3%
NOPAT Margin	7.3%	-0.8%	13.3%	16.1%	16.1%
ROE	8.6%	-8.9%	31.5%	33.2%	27.1%
ROCE	15.3%	-1.7%	32.6%	35.8%	31.1%
Leverage Ratio					
Total D/E	0.5	0.5	0.4	0.3	0.2
Turnover Ratios					
Asset Turnover	0.9	0.7	0.9	1.0	0.9
Receivable Days	11	12	10	10	10
Inventory Days	48	45	43	41	41
Payable Days	138	118	115	115	116

Source: Company, Arianth Capital 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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