

CMP: INR 480

Rating: Buy

Target Price: INR 682

Stock Info

BSE	543336
NSE	CHEMPLASTS
Bloomberg	CHEMPLAST:IN
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	791
Mkt Cap (INR Bn)	75.85
52w H/L (INR)	543/395
Avg Yearly Volume (in 000')	204

Shareholding Pattern %

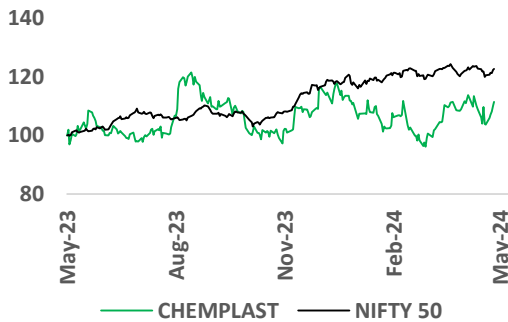
(As on March, 2024)

Promoters	54.99
FII's	10.83
DII's	28.15
Public & Others	6.02

Stock Performance (%) 1m 6m 12m

Chemplast Sanmar	-2.1%	6.9%	9.33%
NIFTY	0.86%	13.72%	23.0%

Chemplast Sanmar vs Nifty



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INTRODUCTION

Chemplast Sanmar Ltd. is part of the SHL Chemicals Group, which in turn is a constituent of the Sanmar Group. It is a major manufacturer of Suspension PVC (62% of FY24) used for pipe manufacturing and construction, Specialty Paste PVC resin and Custom Manufactured Chemicals (25% of FY24) for agro-chemical, pharmaceutical and fine chemicals sector. The other Non-Specialty chemicals include Caustic Soda, Chloromethane, Hydrogen Peroxide and Refrigerant gas make up for the rest of the 13%. The company had undertaken several expansion capex for INR 10 bn. The plans are on track with one major project commissioning in Q4FY24 while other one on track to complete in Q1FY25.

CMC segment to drive growth while PVC segment to see price improvements

Overall improvement on sequential basis as prices start to stabilize

Revenue for Q4FY24 came at INR 10,507 mn (up 18.3% QoQ / down 8.4% YoY). The degrowth was mainly due to low realizations across all segments. EBITDA came at INR 210 mn (against negative INR 66 mn /down 78.5% YoY). EBITDA Margins stood at 2.0% in Q4FY24 (up 274 bps QoQ/down 650 bps YoY). Net Loss reported was at INR 311 mn (up 65.2% QoQ/down 167.6% YoY).

Capacity expansion in Specialty Paste PVC completed; CMC Phase 2 project to complete by Q1FY25

The company successfully commissioned 41,000 tonnes Paste PVC expansion project during the quarter. New products from this plant have been well received by customers and they expect to achieve 100% operating rate by Q1FY25. Phase 2 of CMC project is expected to complete in Q1FY25. The company has recently signed their 4th LOI with an agrochemical innovator for an advance intermediate with a revenue potential of INR 5 bn, based on initial commitments. The LOI covers 5 years and commercial supplies will begin in CY25.

PVC prices have seen improvement while demand remains strong

During FY24, the Suspension and Specialty Paste PVC prices were lower by 19% and 12% respectively when compared to FY23. Some improvements have been seen in Q4FY24 which eventually led to sequential improvement in revenues. Demand in the domestic market remains strong. Due to excess dumping, domestic prices were largely affected by low import prices. Going forward, import prices from China are expected to increase along with Anti Dumping duties which are to be levied in the coming time. This will shift the demand to domestic players. The overall industry has also witnessed major capacity additions.

Outlook and Valuation:

Custom manufacturing chemicals segment has been expanding sequentially. The recent capacity expansions along with LOIs in hand indicate significant growth going forward. As PVC prices are witnessing revival and stability, Specialty Paste PVC segment will see gradual improvements as they are in line with their expansion plans. Anti dumping duties filed are expected to be approved in FY25 which will improve the current domestic market position. We maintain our "BUY" rating with revised Target Price of INR 682 per share based on SOTP; with an upside of 42%.

Financial Performance:

Summary	FY23	FY24E	FY25E	FY26E	FY27E
Net Sales	49,411	39,230	56,259	65,100	71,610
EBIDTA	4,681	258	10,327	13,958	15,354
Net Profit	1,524	-1,584	6,360	9,315	10,247
Diluted EPS	9.64	-10.02	40.22	58.91	64.80
P/E (x)	51.89	-49.90	12.43	8.49	7.72
EV/EBIDTA (x)	16.50	320.58	7.58	4.71	3.50
P/BV (x)	4.25	4.65	3.38	2.42	1.84
ROE (%)	8.20	-9.32	27.23	28.51	23.87
Debt/Equity (x)	0.54	0.91	0.40	0.29	0.22

Particulars (INR Mns)	Q4FY24	Q3FY24	Q4FY23	QoQ	YoY
Revenue from operations	10,507	8,881	11,468	18.3%	-8.4%
COGS	7,237	6,033	7,475	20.0%	-3.2%
Gross Profit	3,271	2,848	3,993	14.8%	-18.1%
Gross Profit Margins	31.1%	32.1%	34.8%	-94bps	-369bps
Expenses					
Employee Benefits Expenses	511	420	391	21.6%	30.6%
Other Expenses	2,550	2,494	2,628	2.3%	-3.0%
EBITDA	210	-66	974	-419.3%	-78.5%
EBITDA Margins	2.0%	-0.7%	8.5%	274bps	-650bps
Other Income	126	127	309	-0.2%	-59.2%
EBITDA (incl. OI)	336	61	1,284	452.6%	-73.8%
EBITDA Margins	3.2%	0.7%	11.2%	251bps	-799bps
Depreciation	460	376	335	22.2%	37.4%
EBIT	-124	-315	949	-60.8%	-113.0%
EBIT Margins	-1.2%	-3.6%	8.3%	237bps	-945bps
Finance Cost	510	468	384	8.8%	32.7%
PBT	-633	-783	565	-19.2%	-212.1%
Exceptional Items	0	0	0	NA	NA
Profit Before Tax	-633	-783	565	-19.2%	-212.1%
Tax Expenses	-322	110	104	-391.6%	-409.2%
PAT	-311	-894	461	-65.2%	-167.6%

Concall Highlights**Industry outlook –**

PVC industry continued to face excess dumping of low priced Resin by global players, leading to pressure on domestic prices and margin compression. Paste PVC imports were lower in FY24, but they were at lower prices than domestic prices. Suspension PVC imports increased by 16%, mainly driven by China.

Import prices from China have also increased in the last 2 weeks as the earlier prices were unsustainable.

Paste and Suspension PVC prices were lower by 12% and 19% respectively during the year. Some improvements seen in Q4FY24 which led to QoQ improvement in revenue.

Demand continues to remain strong in Paste and Suspension PVC despite pricing pressure.

Two new big capacities have been announced in the PVC business in the domestic market. And as the demand grows, more capacity additions are expected to come in. Eventually, the Management feels demand will be more than supply in the market. While globally, there is not much capacity additions happening.

Boom in the real estate and infrastructure industry and Quality control order and Anti dumping duties on PVC These factors will lead to better pricing in the next 2-3 quarters.

Non specialty chemicals segment –

The segment continues to face oversupply situation. Caustic soda prices have further corrected on QoQ basis. We can expect stability in the next 3-4 quarters.

Custom manufactured chemicals segment –

Headwinds in the Agrochemical industry continue to prevail which has affected the segment. Some of this was offset by supply of new products from the past 2 LoIs signed.

The company has recently signed their 4th LOI with an agrochemical innovator for an advance intermediate with a revenue potential of INR 5bn, based on initial commitments. The LOI covers 5 years and commercial supplies will begin in CY25. This product will be manufactured in Phase 2 of new multipurpose production block which will commission soon.

The company is currently planning on how to steadily increase utilisation with the new LOI coming in; they expect to have better clarity on utilisation from next quarter. 1st and 2nd LOI will be catered through the Phase 1 while 3rd and 4th LOI will be serviced through Phase 2. 3rd LOI is currently in pilot trials.

The guidance to achieve INR 10bn revenue in next 2-3 years from CMC segment remains intact.

Expansions –

The company successfully commissioned 41,000 tonnes Paste PVC expansion project during the quarter. New products from this plant have been well received by customers and they expect to achieve 100% operating rate by Q1FY25. This will help in import substitution of domestic demand and will strengthen their position in the domestic market.

Phase 2 of CMC project is expected complete in Q1FY25.

R&D –

The company had commissioned second phase of expansion in Q3FY24. They also intend to expand their pilot scale capabilities. They currently have 15 new products in development stage.

Pricing –

Current Suspension PVC prices are at US\$ 830-850, VCM (Raw Material) is around US\$ 600-620 while Paste prices are around US\$ 1050-1100. These prices are dynamic and continue to be volatile. Once anti-dumping duty notification comes through, Paste PVC will see improvements.

Anti Dumping duty –

Anti dumping duty has been implemented on China, Malaysia, Taiwan and Thailand for Paste PVC and we expect it to come into effect soon. Investigation on Suspension PVC have been initiated. These measures will lead to better quality products being imported in the domestic market.

Other highlights –

Gross margins remained flat at 31% mainly due to soft pricing in Non specialty chemicals segment. Employee expenses increased by 22% on sequential basis due to high manpower in CMC and new Paste PVC facility, while other expenses remained flat.

Overall, PVC resins volumes were marginally higher while all other chemicals witnessed volume degrowth in FY24.

Freight, Power and Fuel costs saw major reduction in FY24. Project loans led to increase in finance costs.

New products in CMC are also in development phase and they may take time to reach substantial contribution.

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, Arianth 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, Arianth 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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