

CMP: INR 455
Target Price: INR 612
Rating: BUY

Stock Info

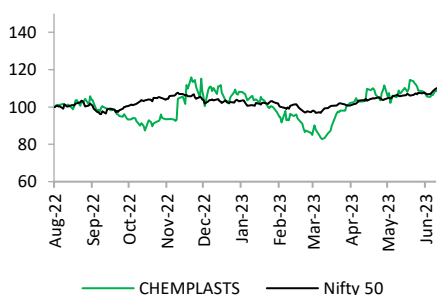
BSE	543336
NSE	CHEMPLAST
Bloomberg	CHEMPLAST:IN
Reuters	CHEMPLAST.BO
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	791
Mkt Cap (INR Mn)	75,789
52w H/L (INR)	501 / 342
Avg. Yearly Volume (in 000')	251

Shareholding Pattern %

(As on August, 2023)

Promoters	54.99
DII's	26.63
FII's	11.45
Others	6.92

Chemplast Sanmar Vs Nifty



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The management believes that prices have bottomed out and are recovering based on strong demand and a drop in imports and expects gradual improvement sequentially. Also, the price recovery is supported by increasing consumption in China markets and production shortage in the US, reducing exports. For FY24, the company revises its revenue growth guidance to 25% (vs 10-15% previously). The company anticipates revenue of ~INR 10 Bn in 3-4 years from the custom manufacturing facility.

Capacity expansion to drive volume growth

Chemplast Sanmar Ltd. is the oldest player and one of the only two companies in India having the requisite technology. More than 60% of Specialty Paste PVC capacity (post expansion) is backward integrated. It is undertaking expansion of 41 ktpa, which is coming up at Cuddalore. Leveraging its leadership position in the Indian market, post expansion, CSL will have about 83% of domestic production capacity and about 66% market share with the downstream capacities configured to CSL's resin quality. It also has a strong clientele with longstanding customer relationships.

Traction in Custom Manufacturing Business

The company has already received two sizeable contracts in the past six months, which will provide decent revenue visibility, going forward. It received one Letter of Intent (LoI) in November last year for an advanced intermediate for a new molecule. Additionally, it signed another Letter of Intent (LoI) with a global agrochemical innovator to manufacture an advanced intermediate for an established generic Active Ingredient. The LoI covers a period of 5 years. The commercial supplies are expected to start from 4Q of FY23-24. The new product will be manufactured in the new multi-purpose production block which is on track for commissioning in 2Q of FY23-24.

Leveraging leadership position in Suspension PVC

It has received environmental clearance to go up to 6,00,000 tonnes from the current capacity. In the interim, it had undertaken debottlenecking exercise at a marginal capital expenditure of around INR 230 Mn. The initiative has increased the overall capacity to 3,30,000 tons and will have a payback period of six months. If required, it can further expand its capacity to 6,00,000 tonnes.

Benefitting from being an integrated chemical company

It manufactures caustic soda, hydrogen peroxide, chloromethanes and refrigerant gases as part of other chemical division of the company. As a result, it is a completely integrated chemical company. Thus, it has a diversified product portfolio and customer base. It has fully integrated operations resulting in sufficient control over feedstock. The entire chlorine is consumed in-house and there is no disposal issue.

Valuation & Outlook

Chemplast Sanmar Ltd. is implementing a multi-pronged strategy to drive growth, which includes capacity expansion, ramping up its Custom Manufacturing Business and integrating its business operations. Post the completion of its capital expenditure cycle, it will benefit from volume growth. It is leveraging its clientele to expand its custom manufacturing business and we expect the specialty business to be the major driver of revenue growth, going forward. Additionally, the company benefits from demand supply mismatch in the domestic PVC market. Factoring in the above growth drivers, we have a positive view on the company. We value the company at 12x its FY26E EPS of INR 51.0 and arrive at a Target Price of INR 612 per share, working on detailed numbers. Accordingly, we have a Buy Rating on the stock.

Q1FY24 Concall KTAs:

Management believes that prices have bottomed out and gradual recovery expected based on strong demand and a drop in imports.

Performance

- Revenue from operations stands at INR 3,498 Mn (-18% QoQ, -39% YoY).
- EBITDA arrived at of INR (241) Mn (Vs INR 313 Mn in Q4FY23 / INR 1,212 Mn in Q1FY23).
- PBT arrived at INR (435) Mn (Vs INR 96 Mn in Q4FY23 / INR 487 Mn in Q1FY23).
- PAT stands at INR (279) Mn (Vs INR 82 Mn in Q4FY23 / INR 386 Mn in Q1FY23).
- Decline in revenue was attributed to lower realizations per ton in all products.

Suspension PVC

- Revenue arrived at INR 6,490 Mn (-10% QoQ, -30% YoY).
- Sales volumes during the quarter arrived at 85,620 MT (+1% QoQ, +15% YoY).
- Decline in top line was attributed to price drops.
- The company has recorded strong demand for suspension and specialty PVC resins during the quarter leading to volume growth.
- Imports during Q1FY24 were recorded at ~6 lakh tons (vs 9 lakh tons in Q4FY23) while the import prices have increased to \$900 (previously \$725).

Other Chemicals

- Revenue arrived at INR 1,310 Mn (-22% QoQ, -44% YoY).
- Sales volumes during the quarter arrived at 30,851 MT (-11% QoQ, -19% YoY).
- The revenue decline was due to reduced volumes and prices of caustic soda, chloromethanes, hydrogen peroxide, and refrigerant gases.
- The company expects global headwinds like pricing pressure and excess supply situation to continue for some quarters.

Speciality Chemicals

- Revenue arrived at INR 2,170 Mn (-17% QoQ, -15% YoY).
- Sales volumes during the quarter arrived at 17,869 MT (+8% QoQ, +31% YoY).

Paste PVC

- Sales volume improved by 10% QoQ, 32% YoY
- Imports during Q1FY24 arrived at 13,500 tons (vs 35,000 tons in Q4FY23) prices have increased to \$1,100 (previously \$900).

Prices

- Despite strong local demand, prices of suspension PVC and specialty paste have been decreasing sequentially and are believed to be at their lowest due to dumping from China.
- There was a correction in feedstock prices and the company anticipates the benefits of the same in Q2FY24.
- The company is expecting to reap the benefits of reduced prices of Coal and kerosene in coming quarters.
- Import prices dropped by 10% QoQ but recovery is visible towards the end of quarter.
- In other chemicals, Caustic soda prices have dropped to \$395 (vs \$740 in Q1FY23). The company expects slow recovery.

CAPEX

- Construction of Phase 1 of Custom Manufacturing facility has been completed, costing ~INR 3 Bn. It is expected to reach peak capacity in 2-3 years. Phase 2 completion is expected by the end of the year.
- Specialty paste PVC expansion project of 41,000 tons is expected to be commissioned in November'23.
- Total CAPEX spends for FY24 are estimated to be ~INR 7.5 Bn.

Other Highlights

- Cash balance arrived at INR 12.4 Bn.
- LOI received for 2 molecules which will be manufactured in the new production block.
- The company reports a strong pipeline for the custom manufacturing facility.
- Currently, the company has 9 molecules and plans to add 3 more out of which LOIs have been received for 2.

Guidance

The management believes that prices have bottomed out and are recovering based on strong demand and a drop in imports and expects gradual improvement sequentially. Also, the price recovery is supported by increasing consumption in China markets and production shortage in the US, reducing exports. For FY24, the company revises its revenue growth guidance to 25% (vs 10-15% previously). The company anticipates revenue of ~INR 10 Bn in 3-4 years from the custom manufacturing facility.

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Stock Rating Scale

BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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