



Chemplast Sanmar Limited

Regd Office:
9 Cathedral Road
Chennai 600 086 India
Tel + 91 44 2812 8500
E-mail: csl@sanmargroup.com
www.chemplastsanmar.com
CIN L24230TN1985PLC011637

May 26, 2023

| | |
|--|---|
| BSE Limited Phiroze Jeejeebhoy Towers, Dalal Street, Mumbai – 400 001 Scrip Code - 543336 | National Stock Exchange of India Limited Exchange Plaza, Bandra Kurla Complex Mumbai – 400 050 Scrip Symbol - CHEMPLASTS |
|--|---|

Dear Sirs,

Subject: **Withdrawal of Credit Rating at our request - Intimation pursuant to Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015**

With reference to captioned subject, we would like to inform you that at our request and on submission of No-Objection Certificates from the various lenders of the company, the credit rating agency viz. India Ratings and Research Pvt. Ltd. vide its letter dated 26th May, 2023 has withdrawn its rating assigned to the bank loan facilities of Chemplast Sanmar Limited (banking facilities aggregating to Rs. 700 Cr), with immediate effect.

The copy of letter from credit rating agency - India Ratings and Research Pvt. Ltd. is attached for your reference.

We continue to have the ratings assigned by CRISIL Ratings for the said facilities.

This is for your kind information and record.

Thanking You,

Yours faithfully,
For CHEMPLAST SANMAR LIMITED

M RAMAN
Company Secretary and Compliance Officer
Memb No. ACS 6248



India Ratings Affirms and Withdraws Chemplast Sanmar's Ratings

May 26, 2023 | Specialty Chemicals

India Ratings and Research has affirmed Chemplast Sanmar Ltd.'s (CSL) Long-Term Issuer Rating at 'IND A+' with a Positive Outlook, and simultaneously withdrawn it. The instrument-wise rating actions are as follows:

| Instrument Type | Date of Issuance | Coupon Rate | Maturity Date | Size of Issue (million) | Rating | Rating Action |
|---|------------------|-------------|---------------|-------------------------|--------|------------------------|
| Non-fund-based working capital facilities* | - | - | - | INR1,600 | WD | Affirmed and Withdrawn |
| Proposed non-fund-based working capital facilities* | - | - | - | INR5,400 | WD | Affirmed and Withdrawn |

*Rating affirmed at 'IND A1+' before being withdrawn

Ind-Ra is no longer required to maintain the ratings, as the agency has received a request for withdrawal from the company and no-objection certificates from all the lenders. This is consistent with Ind-Ra's Policy on Withdrawal of Ratings.

Analytical Approach: Ind-Ra continues to take a consolidated view of Chemplast Sanmar Limited (CSL) and its wholly owned subsidiary, Chemplast Cuddalore Vinyls Limited (CCVL), owing to the strong operational and strategic linkages between them.

The Positive Outlook continues to reflect Ind-Ra's expectation of an improvement in CSL's business and financial profiles over the medium term, on the back of consolidation of its market leading position in the paste polyvinyl chloride (PVC) business with an increase in capacity and an increase in the scale of the custom manufacturing business, along with a recovery in the profitability of the PVC business.

Key Rating Drivers

Business Profile to Strengthen post Capex Completion; Balanced Mix of Specialty and Commodity

Chemicals: CSL has an established position in the specialty paste PVC market, and is the largest producer of the same in India, having an installed capacity of 66 kilo tonnes per annum (ktpa). The company is in the process of increasing the capacity to 107ktpa by 2HFY24, which will strengthen its leadership position. Additionally, CSL undertakes complex custom manufacturing of starting materials and intermediates for global life sciences and fine chemical end-uses, leading to a diversified business profile. Given the demand opportunities, the company is increasing its capacity multi-fold to 4,500 metric tonnes per annum(mtpa) in two phases by FY24 (FY23: 1,068mtpa). Its specialty chemical business (paste PVC and custom manufacturing) contributed 22% to its consolidated sales for FY22 and FY23 and the share is likely to increase over the medium term as the new capacities ramp-up.

The company (through its subsidiary CCVL) is also the second-largest manufacturer of suspension PVC (SPVC) resin in India and the largest manufacturer in south India (installed capacity of 331ktpa), contributing 60%-65% to the consolidated sales in FY22 and FY23. CSL also manufactures chloromethane (installed capacity of 35ktpa), caustic soda (installed capacity of 119ktpa), refrigerant gases (installed capacity of 1.7ktpa) and hydrogen peroxide (installed capacity of 34ktpa at 50% concentration), together contributing around 17% to the FY23 sales.

Integrated Manufacturing Capabilities: The company's paste PVC and non-PVC products such as caustic soda and chloromethane are produced by the fully-integrated operations at its Mettur (Tamil Nadu) facility. CSL has captive salt fields and a coal-based power plant, with adequate capacities to provide for in-house consumption.. The company has its own marine terminal facility to import key raw materials such as ethylene. The highly integrated manufacturing processes have helped in reducing CSL's raw material cost, leading to higher-than-average EBITDA margins across product categories. Suspension PVC is manufactured through the vinyl chloride monomer route (at a separate facility at Cuddalore, Tamil Nadu) that is partially susceptible to volatility in crude oil prices.

Experienced Management; Long Operational Track Record: CSL is one of the three operating chemical companies of the Sanmar group, which has global footprints, with operations in the US, Mexico, Egypt and India. The group, which earns annual revenue of over USD1.8 billion (FY22), has interests in chemicals, engineering services and shipping. Sanmar Engineering Services Ltd is the group's holding company for the chemicals business, including CSL. FIH Mauritius Investments Limited (owned by the Fairfax group, Canada) held a 43% stake in Sanmar Engineering Services as of March 2023. CSL's promoters have an experience of over five decades in the chemicals industry (first PVC plant was set up in 1967) and the company has a professional senior management team that has been associated with the group for over two decades.

Sharp Fall in PVC Prices Hit Revenue and EBITDA Margins in FY23; Gradual Recovery Likely in FY24:

While sale volumes grew 6%-9% yoy in FY23 for all the three divisions (specialty, SPVC and other chemicals), a sharp fall in the prices resulted in the consolidated revenue declining 16% yoy to INR49.4 billion in FY23. After a surge in 2HFY21-FY22, PVC prices witness a secular fall in FY23 as the slowdown in demand in China created a large surplus. Imports of SPVC surged to 1.9Million Tonnes in FY23 (FY22: 1.2Million Tonnes) and prices were down by around 40% yoy by March 2023, leading to inventory losses for Indian PVC players. This, coupled with a rise in energy costs, resulted in the EBITDA margins plummeting to 9.5% in FY23 after witnessing exceptional margins of 20%-25% in FY21 and FY22.

Demand for PVC products in India remains robust, driven by the government's continued focus on growth in the irrigation sector, affordable housing and infrastructure projects. 50%-60% of India's paste PVC

demand and SPVC demand is being met through imports. Ind-Ra expects some recovery in PVC prices 2QFY24 onwards as demand picks up in China. Furthermore, the quantity restriction on the import of lower grade SPVC from China, Taiwan, US and Russia recommended by the Ministry of Commerce & Industry in May 2023 should provide some respite from the import once notified. Furthermore, CSL would witness partial benefit of the new custom manufacturing capacities in FY24 although the full benefit would accrue as capacities ramp-up. As a result, Ind-Ra expects some recovery in CSL's EBITDA in FY24 with a further improvement in FY25.

Credit Profile to Remain Strong: Notwithstanding a sharp fall in the EBITDA to INR4.7 billion in FY23 (FY22: INR12 billion; FY21: 9.61 billion, CSL maintained its net cash position with net leverage coming in at negative 0.2x (negative 0.1x, 1.9x). The company had witnessed significant deleveraging in FY22 following the completion of its initial public offering which included a fresh issue of INR13 billion. The company uses non-fund-based facilities to import raw materials and had letters of credit (LCs) of INR14.3 billion outstanding at the consolidated level at end-FY23 (FY22: INR15.2 billion), including which the net leverage stood at 2.9x (1.1x). The EBITDA interest coverage remained comfortable at 3x in FY23, though down from 3.7x in FY22. Given the likely recovery in profitability, Ind-Ra believes the company's financial profile will improve in FY24 despite the ongoing capex.

Liquidity Indicator - Adequate: CSL had cash and equivalents of INR11.9 billion at end-March 2023 (FY22: INR12.3 billion) including margin deposits against LCs to import raw materials. The company has around INR1 billion of repayments over FY24-FY25 which would be comfortably met through internal accruals. The fall in profitability led to a decline in the cash flow from operations(Post Interest Expenses) (FY23: INR2.01 billion, FY22: INR5.79 billion) which is likely to improve in FY24. The management plans to incur a capex of around INR7 billion in FY24 which is a part of the INR11 billion capex to expand its production capacities in paste PVC and custom manufacturing. The long payable days lead to a negative net working capital cycle with average trade payables of over 150 days. On a standalone basis, CSL's average utilisation of the fund-based limits was minimal and that of the non-fund-based limits was 50%-60% for the 12 months ended January 2023 and is likely to have remained moderate thereafter.

Comfortable Standalone Financial Profile: Standalone revenue grew to INR22 billion in FY23 (FY22: INR20.1 billion) while EBITDA margin fell to 13.9% (31.2%) due to the fall in prices and increase in costs. However, lower interest costs (FY23: INR0.2 billion, FY22: INR1.4 billion) led to a sharp improvement in interest coverage to 13.5x (FY22: 4.6x).

Profitability Susceptible to Fluctuations in Raw Material Prices and Forex Rates: Ind-Ra believes the volatility in CSL's feed-stock prices (ethylene and EDC, which are crude derivatives) will continue to impact the company's operating EBITDA margins. However, the risk is mitigated as the company derives a sizeable proportion of the revenue and EBITDA from non-PVC products. Furthermore, the structural changes in the PVC industry namely closure of plants around the world and supply-demand gap in India are likely to keep its margins at high levels. Also, CSL has been leveraging the management's extensive experience in the chemical industry to manage the inherent price volatility in the PVC business.

CSL is also exposed to foreign exchange fluctuations as it imports key feedstock supplies. However, the company has a sound hedging policy in place covering a large-value forex exposure to effectively manage this risk.

Company Profile

CSL manufactures PVC, chloromethanes, caustic soda, hydrogen peroxide, custom chemicals and refrigerant gases, while CCVL manufactures SPVC. The company is a part of the Sanmar group, which has interests in chemicals, shipping and engineering.

FINANCIAL SUMMARY - CONSOLIDATED

| Particulars | FY23 | FY22 |
|-------------------------------|----------|----------|
| Revenue (INR million) | 49,411 | 58,920 |
| EBITDA (INR million) | 4681 | 11,968 |
| EBITDA margin (%) | 9.5 | 20.3 |
| Gross interest coverage (x) | 3.0 | 3.72 |
| Net leverage excluding LC (x) | Negative | Negative |
| Source: CSL; Ind-Ra | | |

Non-Cooperation with previous rating agency

Not applicable

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

Rating History

| Instrument Type | Current Ratings | | | Historical Ratings/ Rating Watch/Outlook | | | | | |
|---|-----------------|--------------|-----------------|--|---------------|---------------|---|-----------------|--------------|
| | Rating Type | Rated Limits | Rating | 28 February 2022 | 16 June 2021 | 20 March 2020 | 3 June 2019 | 1 March 2019 | 6 April 2018 |
| Issuer Rating | Long Term | 0 | IND A+/Positive | IND A+/Positive | IND A-/Stable | IND A-/Stable | IND A+/Rating Watch with Developing Implications | IND A+/Positive | IND A/Stable |
| Non-fund-based working capital facility | Short Term | INR7,000 | IND A1+ | IND A1+ | IND A1 | IND A1 | IND A1+/Rating Watch with Developing Implications | IND A1+ | IND A1 |

Bank wise Facilities Details

[Click here to see the details](#)

Complexity Level of Instruments

| Instrument Type | Complexity Indicator |
|---|----------------------|
| Non-fund-based working capital facilities | Low |

For details on the complexity level of the instruments, please visit <https://www.indiaratings.co.in/complexity-indicators>.

Contact

Primary Analyst

Khushbu Lakhotia

Director

India Ratings and Research Pvt Ltd

Room no - 1201, 12th Floor, OM Towers, 32 Chowringhee Road, Kolkata-700071, India

+91 33 40302508

For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Sriram Srinivasan

Analyst

Chairperson

Rohit Sadaka

Director

+91 33 40302503

Media Relation

Ameya Bodkhe

Marketing Manager

+91 22 40356121

APPLICABLE CRITERIA

Evaluating Corporate Governance

The Rating Process

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

DISCLAIMER

All credit ratings assigned by india ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.indiaratings.co.in/rating-definitions>. In addition, rating definitions and the terms of use of such ratings are available on the agency's public website www.indiaratings.co.in. Published ratings, criteria, and methodologies are available from this site at all times. India ratings' code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.