Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

Rating Rationale

September 30, 2021 | Mumbai

Chemplast Sanmar Limited

'CRISIL A+/Positive/CRISIL A1+' assigned to Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.700 Crore**
Long Term Rating	**CRISIL A+/Positive (Assigned)**
Short Term Rating	**CRISIL A1+ (Assigned)**

1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale
CRISIL Ratings has assigned its '**CRISIL A+/Positive/CRISIL A1+**' ratings to the bank facilities of Chemplast Sanmar Limited (CSL).

The rating reflects CSL's (consolidated basis including 100% subsidiary Chemplast Cuddalore Vinyl Ltd (CCVL)) established market presence in the poly vinyl chloride segment (PVC, both paste and suspension segments), diversified revenue stream catering to multiple end user industries, long standing relationship with customers and healthy demand prospects for its products. The rating also factors in the long vintage and experience of the promoters in the PVC and chemicals sector. CSL's financial risk profile is adequate and improving, benefitting from healthy cash generating ability, and a largely deleveraged balance sheet, with sizeable debt reduction taking place post the recently completed initial public offering (IPO). These strengths are partially offset by part commoditized nature of products which lends variability to operating margins. Besides there is also high import dependence of key raw materials for suspension PVC business, which exposes the company to risk in foreign exchange fluctuations.

CSL's business risk profile benefits from its established market position in India in the PVC (paste and suspension) segment and in the chlor alkali business in South India. The company is the largest player in the domestic paste PVC resin business and second largest player in the suspension PVC business by installed capacity. Revenues also benefit from diversity in product segments with ~65% of revenues derived from suspension PVC, ~20% from paste PVC resin and balance ~15% from chemicals (chlor alkali and custom manufactured chemicals).

Despite pandemic induced disruptions owing to a nation-wide lockdown during the first quarter of fiscal 2021, the company registered a healthy 20% rise in revenues year on year to Rs.3793 crores, aided by strong realizations in the PVC segment. Global supply constraints from major manufacturing countries and low capacity additions on account of large capital requirements and stringent environmental norm and shutdown of capacities in China have resulted in global PVC prices remaining high in fiscal 2021. On the domestic front also, demand rebounded from end user segments post lifting of the lockdown aiding PVC manufacturers like CSL. Operating margins also improved by over 1200 bps to ~25% in fiscal 2021, driven by better absorption of fixed costs and healthy gross margins.

CSL's sales during April – Jun 21 were once again partially impacted by the second covid wave in fiscal 2022; however, production was not materially impacted and demand for products continues to remain healthy. There was a build-up in inventory due to the second wave and the same has been normalized subsequently; overall performance in fiscal 2022 is expected to be better than fiscal 2021, with operating profitability too remaining healthy.

Financial risk profile is adequate and improving. CSL was listed on the stock exchanges on August 24, 2021 and the company raised Rs 3850 crore (fresh issuance: Rs 1300 crore; offer for sale (OFS) by promoter holding company: Rs 2550 crore) via an IPO. CSL has used the fresh equity proceeds to redeem high cost non-convertible debentures (NCDs) of Rs 1238 crore raised in fiscal 2020. These NCDs were earlier raised mainly to retire the debt at the holding company, Sanmar Engineering Services Ltd. (SESL), apart from refinancing some debt at the company. Total long term debt at CSL has been completely retired, while its subsidiary, Chemplast Cuddalore Vinyls Ltd (CCVL) has long term debt of ~Rs.900 crore. The sharp reduction in debt and healthy profitability will lead to improvement in debt protection metrics as reflected in ratio of debt/earnings before interest, depreciation, tax and amortization (EBITDA) estimated at ~1.2 times in fiscal 2022, compared with 2.2 times in fiscal 2021. Besides, with significant high cost debt being retired, the interest cover and net cash accruals to total debt (NCATD) ratios are also likely to improve to over 3.5 times and 0.45 time respectively in fiscal 2022, from 2.2 times and 0.24 time in fiscal 2021

Earlier, CSL's adjusted net worth turned negative in March 2021, due to acquisition of 100% stake in erstwhile associate, CCVL, which had a negative net worth. In fiscal 2021, CCVL had redeemed CCDs of ~Rs 2450 crore raised from holding companies by utilizing fresh CCD's raised from CSL of Rs 1250 crore and redemption of investment in group companies amounting to Rs 1200 crore. This resulted in negative net worth for CCVL, and for CSL on consolidated basis. However, the

negative networth is not due to any business or cash loss. With the IPO infusion and the expected annual profits, the networth is expected to turn positive.

Annual accruals, which were at Rs. 541 crore in fiscal 2021, are expected to be healthy over the medium term and sufficient to meet capex, repayment obligations and working capital requirements. While the company is expected to incur capex of Rs 600-700 crore over the next 3 fiscals, mainly in the paste PVC resin segment and Custom-manufactured chemicals (CS) segment, the same will be in a phased manner, and therefore no material debt addition is likely. Besides, the company is also expected to gradually improve its working capital management, and lower interest payout related to letter of credit (LC) for imports of key raw materials. Hence, improvement in debt metrics is expected to continue over the medium term.

Analytical Approach

For arriving at the ratings, CRISIL Ratings has consolidated the business and financial profiles of CSL and its 100% subsidiary, CCVL. This is due to the strong business and financial linkages between the companies.

Both companies (CSL and CCVL) adopted fair value method of accounting in fiscal 2019, in line with Ind AS accounting standards, and accordingly revalued their assets, and created a combined revaluation reserve of ~Rs.1500 crore. The same has been knocked off against the consolidated net worth. Depreciation has also been considered without the impact of revaluation of assets, and accordingly profit after tax has been adjusted from fiscal 2019 onwards.

Please refer Annexure – List of entities consolidated, which captures the list of entities considered and their analytical treatment of consolidation

Key Rating Drivers & Detailed Description

Strengths

Steady revenue growth, supported by diverse revenue streams and healthy demand prospects: CSL is expected to register reasonably good revenue growth in fiscal 2022 and over the medium term, supported by good demand for its products, its diverse revenue streams and the growth projects that are planned to be implemented.

In addition to PVC products (85% of revenues), CSL also manufactures caustic soda (8% of revenues) chloro-methanes, refrigerant gases and hydrogen peroxide. Besides, the company also undertakes complex custom manufacturing chemicals of starting materials and intermediates for consumption by life sciences and fine chemical sectors, adding to its business diversity.

In the absence of any major capacity additions by peers, CSL is expected to maintain its leading position in paste PVC resin (~80% market share basis production capacity and ~45% considering imports) and good position in suspension PVC (~20% market share basis production capacity and ~10% considering imports) segments. The planned expansion in the paste PVC resin segment is expected to further strengthen CSL’s market position in the domestic sector which is marked by high reliance on imports. Also, capex in the CS business will ensure further diversification in revenue streams as well as strengthen the overall business risk profile.

Revenue visibility over the medium term will be driven by steady demand for both suspension and paste PVC resin and CS businesses, while contribution from the chlor alkali segment is expected to remain stable. While PVC realizations which have been witnessing historic highs are expected to moderate gradually over the medium term, demand will continue to benefit from the large demand supply mismatch and market leadership position in the domestic markets.

Demand for suspension PVC is expected to register a CAGR of 8-9% driven by growth in the PVC pipes and fittings sector which in turn is driven by the affordable housing, infrastructure and irrigation sectors all benefitting from increased Government spending in these sectors. Demand for paste PVC resin is also expected to register a CAGR of 6-8% driven by demand from end user industries like auto, leather and medical consumables. Imports contributed to 45-50% of domestic demand for both suspension and paste PVC resins as domestic capacity additions remain muted inhibited by high capital cost of setting up new units and high dependence on imports for key raw materials.

Integrated nature of operations: CSL’s plant at Mettur for manufacturing of paste PVC resin and chlor alkalis is highly integrated with captive salt mines (on lease, which is being renewed) and captive power plant to meet requirements for its chlor alkali business. Chlorine derived from caustic soda manufacturing is then combined with ethylene to produce ethylene dichloride which is converted to paste PVC resin. Imported methanol and chlorine are used to manufacture chloro-methanes, while hydrogen produced through the salt electrolysis route is used to produce hydrogen peroxide. CSL also has its own marine terminals at Karaikal and Cuddalore for importing ethylene and Vinyl Chloride Monomer (key raw material for suspension PVC) respectively. The integrated nature of operations enhances its operating efficiencies relative to its peers, and helps it register healthy double digit operating margins (average of 15% since fiscal 2016 and 25% in fiscal 2021).

Experience of Sanmar Group in the chemicals and PVC business: The Sanmar Group has been engaged in the manufacturing of chemicals and PVC sectors for over five decades. The Group also has presence in shipping and engineering sectors through other entities. The promoters have scaled up the domestic PVC/chemicals business to over USD 500 million and is an established player in the domestic markets for its products. The Sanmar group also ventured in the international markets through an acquisition in Egypt (TCI Sanmar S.A.E, TCIS) in 2007 and has expanded the entity to being a major PVC and chlor alkali player in the MENA region. The group’s PVC/chemicals business has consolidated revenues of ~USD 1 billion, making the group a major player in this space. This has also enabled the Group to attract investments from marquee investors like Fairfax Group and same was also evident in the recently concluded IPO of CSL wherein it raised Rs 3850 crore.

Adequate and improving financial risk profile: CSL’s financial risk profile is driven by its healthy cash generating ability, and reduction in high cost debt from IPO proceeds. While the acquisition of CCVL resulted in a negative net worth in fiscal

2021 due to the reasons mentioned earlier, IPO proceeds and cash flows over the medium term, will result in adjusted net worth also turning positive.

CSL is highly dependent on imports of ethylene, VCM and methanol as raw materials for its products. Due to long vintage and established relationship with suppliers, company receives a long credit period. On the sales side for PVC however, collection period is quick at 7-8 days only as sales are almost on a cash and carry model. Inventory period is also low at 40-50 day due to high demand for end products. This results in a negative working capital cycle and low dependence on short term debt for meeting working capital requirements. However, reliance on LC for imports remains high.

The company is expected to undertake phased capex of Rs.600-700 crores spread over the next 3 years, which will be largely funded from accruals. Continued prudent funding of capex and working capital management, along with better accruals, including due to lower interest outgo, will help drive improvement in key debt metrics like debt/EBITDA, interest cover and NCATD to around 1.2 time, 3.5 time and 0.45 time respectively in fiscal 2022. These ratios are expected to continue witnessing gradual improvement thereafter.

Earlier, when CSL and CCVL were unlisted, their balance sheets were used to raise debt and partly prepay the loans raised by SESL to support TCIS. However, factoring in improved operating performance and debt restructuring undertaken at TCIS (current long term debt of ~USD 740 million) and with CSL being re-listed recently, no further support from the domestic chemical companies (CSL and CCVL) is envisaged. This will nevertheless remain a rating sensitivity factor. Also, OFS proceeds have been utilized by the holding company to retire its entire debt and consequently shares of CCVL that were pledged in favour of the lenders as security have been released.

Weaknesses

Vulnerability to fluctuations in PVC prices and regulatory risk: Profitability of PVC and chlor alkali manufacturing companies depends on the prevailing PVC and ECU prices. Cyclical downturns have resulted in variations in operating profitability in the past for these players including CSL. Import of PVC currently attracts an import duty of 10% while duties on import of key raw materials is negligible. While the import duty levels are comparable to other emerging economies, any adverse change in duty structure will impact operating margins.

However, CSL has managed to slowly rationalize other fixed costs and has also ventured into manufacturing of custom chemicals all of which is expected to lend more stability to margins.

High dependence on imports for key raw materials thereby exposing company to risk of forex fluctuations: CSL on a consolidated basis has high import requirements for procuring ethylene, methanol and VCM for paste PVC, chloro-methanes and suspension PVC respectively. CSL imported close to 90% of its raw material requirements in fiscal 2021. This exposes the company to forex fluctuations as it has low exports. However, pricing of PVC products (resin and suspension) are generally dollar linked on import parity basis providing a partial natural hedge. Further, CSL also uses plain vanilla forwards to hedge its imports to reduce forex risk. Therefore, CSL does try to minimize the impact of forex fluctuations on imports of key raw materials.

Liquidity: Strong

CSL's liquidity is strong marked by healthy accruals and unencumbered cash and cash equivalents (~Rs.320 crore at March 31, 2021). While cash balances stood at close to Rs.700 crore post the IPO, the company is expected to maintain unencumbered cash surpluses of at least ~Rs 300 crore in normal course of business. Annual accruals are expected to be healthy and sufficient to meet debt repayments of Rs 61 crore and ~Rs 70 crore in fiscals 2022 and 2023 respectively apart from meeting capital spending and incremental working capital needs. The company's fund based working capital limits are sub-limits of non-fund based limits as the requirement is more for LC for imports of raw material. CSL's limits (on a standalone basis) were utilized to the extent of 61% on average over the 12 month period ended June, 2021. Post debt reduction from IPO proceeds, the company is not expected to have any long term debt at CSL, and only long term debt of ~Rs. 900 crores at CCVL. This will also enhance its ability to raise debt in event of exigencies.

Outlook: Positive

CRISIL Ratings expects CSL's business profile will continue to benefit from its established business position in the PVC businesses, increase in scale of operations and diversity in revenue streams, healthy demand prospects and operating efficiencies. The company's financial risk profile is expected to improve further driven by healthy accruals, prudent capital spend, and better working capital management. No support is expected to be rendered to associate entities or to the holding company over the medium term.

Rating Sensitivity Factors

Upward Factors:

- Steady business performance, and sustenance of operating margins at ~18-20%
- Better revenue diversity with increased contribution from non-commoditized product segments such as CS
- Sustained improvement in financial risk profile supported by prudent capex spend, and better working capital management reflecting in healthy debt metrics; debt/EBITDA stabilizing at below ~1.2-1.3 times

Downward factors:

- Significant moderation in business performance with operating margins deteriorating to below 13-15%
- Significant increase in debt levels due to capex, acquisitions, or elongation of working capital cycle leading to deterioration in key debt metrics; debt/EBIDTA in excess of 2.5 times
- Material support, direct or indirect, to promoter holding company or associate companies, especially TCIS. Moderation in liquidity position including cash surpluses, compared with expectations

About the Company

CSL, part of the South India based Sanmar Group, is among the leading PVC and chemicals player in India. CSL completed its IPO on August 24, 2021 and post IPO promoter shareholding is ~55% and balance 45% is with the public.

CSL started operations in 1967 with manufacturing of PVC. CSL on a standalone basis has installed capacities for manufacturing 66,000 tonne per annum (tpa) of paste PVC resin, 119,000 tpa of caustic soda, 35,000 tpa of Chloromethanes and 34,000 tpa of Hydrogen Peroxide and 1068 tpa of custom manufactured chemicals across 3 locations in Tamil Nadu. Additionally, CCVL has manufacturing capacity of suspension PVC of 300,000 tpa at Cuddalore.

Key Financial Indicators*

Particulars	Unit	2021**	2020
Revenue	Rs.Crore	3,800	1,261
Profit After Tax (PAT)	Rs.Crore	455	127
PAT Margin	%	11.1	10.0
Adjusted Debt/Adjusted networth	Times	-1.13	1.52
Interest Coverage	Times	2.16	3.36

**CRISIL Ratings Adjusted*
***Includes CCVL also as CSL acquired 100% stake in fiscal 2021.*

Any other information: Not applicable

Note on complexity levels of the rated instrument:
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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity levels	Rating Assigned with Outlook
NA	Letter of Credit*	NA	NA	NA	50	NA	CRISIL A+/Positive
NA	Letter of Credit$	NA	NA	NA	50	NA	CRISIL A+/Positive
NA	Letter of Credit#	NA	NA	NA	60	NA	CRISIL A+/Positive
NA	Proposed Non Fund based Limits	NA	NA	NA	540	NA	CRISIL A1+

**Rs 50 crore sub limit for BG/SBLC for Buyers Credit; Rs 1 cr sub limit of OD/CC; Rs 50 crore sublimit for WCDL*
$Rs 50 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 20 crore sub limit of OD/CC
#Rs 60 crore sublimit for Packing Credit; Rs 10 crore sub limit for WCDL; Rs 25 crore sublimit for BG; Rs 5 crore sub limit for OD/CC

Annexure - List of Entities Consolidated

Name of entity	Extent of consolidation	Reasons
Chemplast Cuddalore Vinyls Ltd	Full	100% Subsidiary; business linkages and common management

Annexure - Rating History for last 3 Years

	Current			2021 (History)		2020		2019		2018		Start of 2018
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Non-Fund Based Facilities	ST/LT	700.0	CRISIL A1+ / CRISIL A+/Positive		--		--		--		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Letter of Credit*	50	CTBC Bank Co Limited	CRISIL A+/Positive
Letter of Credit$	50	Indian Overseas Bank	CRISIL A+/Positive
Letter of Credit#	60	DBS Bank India Limited	CRISIL A+/Positive
Proposed Non Fund based limits	540	Not Applicable	CRISIL A1+

This Annexure has been updated on 30-Sep-2021 in line with the lender-wise facility details as on 30-Sep-2021 received from the rated entity
**Rs 50 crore sub limit for BG/SBLC for Buyers Credit; Rs 1 cr sub limit of OD/CC; Rs 50 crore sublimit for WCDL*
$Rs 50 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 20 crore sub limit of OD/CC
#Rs 60 crore sublimit for Packing Credit; Rs 10 crore sub limit for WCDL; Rs 25 crore sublimit for BG; Rs 5 crore sub limit for OD/CC

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating criteria for manufaturing and service sector companies
Rating Criteria for Chemical Industry
CRISILs Criteria for Consolidation

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