Rating Rationale

05 August 2021

CHEMPLAST SANMAR LIMITED

Brickwork Ratings reaffirms the ratings with a revision in outlook for the NCDs of Rs. 1238.25 Crores and Bank Loan Facilities of Rs 200.00 Crores of Chemplast Sanmar Limited

Particulars

a) NCDs

Instrument@	Amount (Rs Crs)		Tenure	Rating[1]	
	Previous	Present		Previous (31 July 2020)	Present rating
NCD	1270.00	**1238.25**	Long Term	BWR A/Negative	**BWR A/Stable Reaffirmed with Revision of Outlook to Stable**
Total	1270.00	**1238.25**	**Rupees One Thousand Two Hundred and Thirty Eight Crores and Twenty Five Lakhs Only**		

@Annexure I shows the details of the NCDs

Instruments with this rating are considered to have an adequate degree of safety regarding the timely servicing of financial obligations. Such instruments carry low credit risk.

b) Bank Loan Facilities

Facilities#	Amount (Rs Crs)		Tenure	Rating[1]	
	Previous	Present		Previous (31 July 2020)	Present rating
Fund based:					
Proposed Cash Credit (Sublimit of Non fund based facility)	(50.00)	**(50.00)**	Long term	BWR A/Negative	**BWR A/Stable Reaffirmed with Revision of Outlook to Stable**
Fund based/Non Fund based			Short term	BWR A1	**BWR A1 Reaffirmed**
WCDL^/LC/BG/ SBLC	50.00	**100.00**			
Proposed WCDL/LC/BG/ SBLC	150.00	**100.00**			
Total	**200.00**	**200.00**	**Rupees Two Hundred Crores Only**		

#Annexure II shows the details of bank loan facilities; ^ WCDL tenure is up to 30 days.

[1] Please refer to BWR website www.brickworkratings.com/ for the definition of the ratings;

Credit Update was published on 13 November 2020.

Rating Action/Outlook

The revision in outlook on Chemplast Sanmar Limited (CSL or the company) factors in the steady recovery of the company's business operations from the Covid-19 impact during Q4FY20 and Q1FY21. The company clocked revenue of Rs. 1288.74 Cr for FY21, which is against Rs. 1259.31 Cr in FY20 and Rs. 468.32 Cr during H1FY21. In line with revenue growth, the profitability also recorded significant growth during FY21, backed by the strong contribution margins of CSL's products. The revision also factors in the Positive outlook for the PVC and caustic soda industry in India, coupled with significant growth opportunities for domestic players in the medium term. Brickwork Ratings (BWR) notes the company's plans to capitalise on these opportunities by way of capacity addition.

BWR had earlier taken note of CSL opting for reliefs for rated Non-Convertible Debentures (NCDs) under the Covid-19 RBI moratorium package and deferring the scheduled interest payments on the rated NCDs and utilised Debt Service Reserve Account (DSRA) to service the interest on the rated NCDs and withholding tax, for April-September 2020, following the approval by the debenture trustee/debenture holders. The deferred interest aggregates around Rs. 98 Cr and the DSRA utilisation was around Rs. 41 Cr. BWR now notes that, backed by the improved liquidity position, CSL has since paid-off the deferred coupons and replenished the DSRA. The scheduled redemption of Rs. 31.75 Cr was done as per the original NCD terms, in December 2020.

BWR notes the company's acquisition of Chemplast Cuddalore Vinyls Limited (CCVL) [rated BWR A-/Stable/A2+] which is also a part of the Sanmar Group and engaged in manufacturing of Suspension Poly Vinyl Chloride (SPVC) products, effective 31 March 2021. CSL acquired 100% of the equity share capital of CCVL amounting to Rs. 303.03 Cr from Sanmar Engineering Services Limited (SESL) and also invested in zero coupon compulsorily convertible debentures (CCD) aggregating to Rs. 1255.34 Cr in CCVL.

BWR also takes cognisance of the company's filing of the Red Herring Prospectus (RHP) for an Initial Public Offer (IPO). The net proceeds of the primary issuance are proposed to be utilised towards the early redemption of the outstanding NCDs and for funding general corporate purposes.

The reaffirmation of the ratings continues to factor in the strong brand equity of Sanmar Group, the experienced management, dominant market position in the chemicals industry, demand outlook for the paste PVC and caustic soda industry in Indian and global markets, and the company's stable EBITDA margins. The ratings continue to be constrained by the increased debt and finance costs due to the high coupon of the rated NCDs impacting the debt protection metrics. The rating also factors in exposure to forex risks, and vulnerability to fluctuations in the prices of key raw materials and finished products.

BWR believes CSL's business risk profile will be maintained over the medium term. The rating outlook may be revised to Positive in the case of better-than-expected performance, efficient working capital management, an improvement in the net worth and decline in debt, thereby strengthening its credit risk profile. The outlook may be revised to Negative in the case of a deterioration in the operating performance, additional debt raising for capex or other needs, or an unexpected stretch in the working capital cycle, thereby adversely affecting the company's debt metrics and credit risk profile.

Key Terms of the rated NCDs

The NCDs of Rs. 1270 Cr were issued in multiple tranches in December 2019 at a coupon of 17.50% per annum payable monthly and have a scheduled tenor of up to 7 years from the deemed date of allotment. The NCDs are unlisted, and have been issued in three tranches (tranche-I Rs. 565 Cr, tranche-II Rs. 485 Cr and tranche-III Rs. 220 Cr), and the investors are Goldman Sachs India AIF Scheme – 1, Apollo Credit Holdings II Pte Ltd and Standard Chartered Bank (Singapore), Limited. The NCDs have a step-up repayment structure, viz, a 2.50% redemption each for the first three years commencing from December 2020, a 15% redemption in the fourth year (December 2023), a 25.8% redemption each in the fifth and sixth years (December 2024 and December 2025), and a 25.9% redemption in the seventh year (December 2026). The debentures are secured by way of mortgage on all the company's immovable properties and hypothecation of movables, a pledge of 26% of the company's shares in favour of the debenture trustee and corporate guarantee of Sanmar Engineering Services Ltd (SESL)/Sanmar Holdings Ltd (SHL). In addition, the scheduled redemption amounts are to be maintained in the specified account, no later than 30 days prior to the scheduled redemption date. The debenture holders have a put option at the end of 4 years. Post the 18-month lock-in period, there is an option to prepay the NCDs without any prepayment penalty.

Key rating drivers

Credit Strengths-:

■ **Reputed Sanmar Group and experienced management-** Chennai-based Sanmar Group is reputed and has established a dominant position in niche chemical products. Started in 1962, the group has global partnerships in a range of industry segments.The group is reported to be one of the large South Indian conglomerates having revenues of more than USD 1 billion and an asset base of more than USD 2 billion, with 100% or the majority holdings in all its businesses such as chemicals, engineering technologies and shipping. The group is fourth-generation-family-owned and professionally managed. The group has operations in the US, Mexico and Egypt, apart from its significant presence in the southern part of India. The senior management team has been associated with the group for over two decades.

■ **Focus on high-margin speciality chemicals business-** Post the reorganisation of the Sanmar group in 2019, CSL has been focused on paste PVC and non-PVC speciality chemicals. These are high-margin, moderate-volume businesses with a significant growth potential. The revenue mix of margin-accretive speciality products has been yielding EBITDA margins in the range of ~28-30%.

■ **Locational advantages and fully integrated nature of manufacturing plants-** The strategically selected location of the Southern and Eastern markets helps in maintaining low operating costs, freight costs, energy costs and labour costs. CSL is a fully integrated facility with an established track record of feedstock management through its own salt farms (for making chlorine) at Vedaranyam, an Ethylene Dichloride (EDC) plant (for making Vinyl Chloride Monomer (VCM)) at Karaikal and the effective management of the import of EDC and methanol, among others. CSL also has its own captive power plant to meet its requirements. Furthermore, CSL has its own dedicated marine terminal facility at Karaikal for the import of ethylene (used in EDC manufacturing).

■ **Industry position and market share-** CSL is reported to be the largest paste PVC manufacturer in India with a >50% market share and strong customer base. CSL is also the third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide, both in South India, and one of the oldest manufacturers in the chloromethanes market in India. Demand for paste PVC in the country is robust and is expected to grow between 5-7% p.a in the next few years, on account of growth in its diverse end-use segments, more particularly the artificial leather industry. India is reported to be currently importing ~60 KTPA of paste PVC, which constitutes around 45% demand, with no further capacity addition being planned by competitors. Additionally, due to high entry barriers, no new PVC plant has been established in the last several years. The increase in the import duty of PVC from 7.50% to 10%, reduction in the import duty of one of the key feedstocks (EDC) to nil and anti-dumping duty measures are also expected to add to the profitability of the business.

■ **Improved operational performance-** The financial performance of CSL during FY21 is marked by stable earnings and profitability margins. The company's revenue improved to Rs. 1288.74 Cr in FY21, on a standalone basis, against Rs. 1259.31 Cr for the same period a year ago. Covid-induced disruptions had significantly impacted Q1FY21 performance; the company was able to achieve a steady recovery since Q2, marked by the improved performance matching pre-Covid levels. Backed by the improved contribution/MT for the products, the EBITDA margins have improved significantly, during FY21. However, the net profitability is impacted by the high coupons of the rated NCDs. EBITDA and PAT for FY21 were Rs. 402.24 Cr and Rs. 43.63 Cr respectively, against Rs. 319.78 Cr and Rs.98.74 Cr in FY20. The company's financial risk profile continues to be moderate, marked by adequate debt protection metrics and moderate gearing levels.

Credit Challenges-:

■**Increase in debt levels and high financing cost-** Until 6MFY20 (audited), the gearing and debt metrics were comfortable in view of the low level of debt. However, FY20 onwards, these were being impacted on account of the additional debt by way of NCDs raised in December 2019 and higher coupon payments. The Total Debt/Tangible Networth ratio was 1.24 times as on 31 March 2021. The company's net profitability is impacted by the high interest outgo towards NCD coupon payment, which in turn negatively impacted the debt protection metrics. However, the net proceeds of the IPO are proposed to be utilised towards the early redemption of the outstanding NCDs, which is expected to reduce the interest cost, going forward.

■ **Refinancing risk-** The company is exposed to refinancing risk from the NCDs, given the large repayment obligations over the medium term. However, the company plans to use net proceeds of the primary issuance towards the early redemption of the outstanding NCDs, well before the period of 4 years when the put option is available to NCD subscribers. Even if the NCDs continue, and the put option is exercised, the company expects to have sufficient cash accruals to meet obligations. The group's financial flexibility has been demonstrated over the years, and subscription of NCDs by current investors also reflects the same.

■ **Price volatility and availability of key raw materials-** The prices of key raw material EDC are volatile. However, CSL has developed long-standing relations with its suppliers, which checks the price volatility to an extent and ensures continuity in supply. CSL also has the capability to partly meet its EDC requirement by manufacturing it in-house, using imported ethylene and chlorine produced in caustic soda operations.

■ **Exposure to forex fluctuations-** Profitability is exposed to forex fluctuations as some key raw materials are imported. However, forex risk is managed through the hedging policy of covering all the high-value forex exposures. Furthermore, the pricing of the end product, speciality paste PVC, is also done on an import parity basis, thereby providing a natural hedge for imports.

■ **Operational disruptions in plants-** As with most chemical plants, the company is exposed to operational risks pertaining to unexpected operational disruptions in manufacturing plants, including the unavailability of key raw materials. However, with its long experience in this industry, and with the employment of preventive maintenance practices, the company is well-positioned to manage its operational risks.

Analytical approach - Standalone

The company has a wholly-owned subsidiary viz, CCVL [rated BWR A-/Stable/A2+] , effective 31 March 2021. While assigning the ratings, BWR has taken a standalone view of the business and financial profiles of Chemplast Sanmar Ltd.

Rating sensitivities:

The company's ability to ensure the efficient utilisation of the installed capacities, sustain and improve its operational and financial performance, strengthen its overall credit profile and manage its working capital efficiently would remain key rating sensitivities. The successful completion of the IPO and extent of reduction in the high-cost debt will be the key monitorables.

Positive

- Sustained improvement in revenue and profitability margins
- Reduction in debt levels, improvement in capital structure and overall strengthening of financial risk profile

Negative

- Prolonged impact of Covid-19 on revenues and cash flows due to a disruption in production and demand, leading to material deterioration in the financial risk profile and liquidity
- More-than-expected debt because of capital expenditure, or a delay in reducing debt through surplus cash/refinancing, leading to a deterioration in debt protection metrics and liquidity

- Any non-adherence to the terms and conditions of the DTD shall be negative from the rating perspective

Liquidity - Adequate: The liquidity position has improved in FY21 on the back of the improved performance and margins, despite Covid-induced troubles. The company mainly utilises its non-fund-based facilities to import raw materials. The average working capital utilisation (mainly non-fund-based facilities) was at ~85-90%. The current ratio was 1.16 times (PY : 1.03 times) and cash and cash equivalents were Rs.149.19 Cr (PY: Rs. 112.71 Cr) (including DSRA/DRR deposits), as on 31 March 2021. The company is in a comfortable position to meet its financial commitments in the medium term.

About the Company

Incorporated in 1962, **Chemplast Sanmar Limited (CSL)**, the flagship company of Sanmar Group, is a major manufacturer of paste PVC resins, caustic soda, chlorochemicals, refrigerant gas and industrial salt. The manufacturing facilities are located at Mettur, Panruti, Cuddalore and Vedaranyam in Tamil Nadu, and Karaikal in Puducherry. (Post the reorganisation, the SPVC plant in Cuddalore that has a capacity of 300 Ktpa, has been owned by Chemplast Cuddalore Vinyls Limited (CCVL)). The paste PVC plant, located at Mettur, has a capacity of 66 Ktpa, and the caustic soda plants in Karaikal and Mettur have a capacity of 52 Ktpa and 67 Ktpa, respectively. The chloromethane plant is in Mettur and has a capacity of 35 Ktpa. A downstream EDC plant of 84 KTPA capacity, which captively utilises chlorine from the chlor-alkali plant at Karaikal, has also been set-up. This plant includes a marine terminal facility for the import of liquid ethylene. The salt needed for chlorine manufacture is supplied by Chemplast's salt fields at Vedaranyam. The power-intensive electrolysis process of manufacturing chlorine is served by Chemplast's own gas-based power plant of 13 MW capacity in Karaikal and coal-based power plant of 48.5 MW in Mettur. PVC and caustic soda industries are two basic segments of the Indian industry, which facilitate a chain of downstream industries serving agriculture, textiles, paper and infrastructure.

Mr. Vijay Sankar is the chairman, and Mr. Ramkumar Shankar is the managing director of CSL. Mr. Chandran Ratnaswami, Dr. Amarnath Ananthanarayanan, Dr. Lakshmi Vijayakumar, Mr. Aditya Jain, Mr. Sanjay Vijay Bhandarkar and Mr. Prasad Raghava Menon are other directors.

Sanmar Group's chemical businesses are under SHL Chemicals Group, i.e., Chemplast Sanmar Ltd, Chemplast Cuddalore Vinyls Ltd and TCI Sanmar Chemicals SAE. Sanmar Engineering Services Ltd is one of the holding companies of the group. FIH Mauritius Investments Limited (owned by Fairfax) has a 43% shareholding in SESL. SESL undertakes comprehensive maintenance contracts for Sanmar-manufactured products, accessories and equipment through a country-wide network of service and repair centres, as well as plant-site operations.

Key Financial Indicators - Standalone

Key Parameters	Units	31 Mar 2020	31 Mar 2021
Result Type		**Audited**	**Audited**
Total Operating Income	Rs. Crs	1259.31	1288.74
EBITDA	Rs. Crs	319.77	402.24
PAT	Rs. Crs	98.74	43.63
Tangible Net worth	Rs. Crs	910.23	976.23
Total Debt	Rs Crs	1288.68	1211.72
Total Debt/Tangible Net worth	Times	1.42	1.24
Current ratio	Times	1.03	1.16

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities

Status of non-cooperation with previous CRA: NA

Rating history for the previous three years [including withdrawal and suspended]

a) NCDs

Sl. No.	Instruments	Current Rating (Aug 2021)			Rating History^			
		Type	Amount (Rs Crs)	Rating	2020	2019	2018	2017
1	NCDs	Long Term	**1238.25**	**BWR A/Stable**	**17 Feb 2020** BWR A/Stable **19 May 2020** BWR A/Stable **31 Jul 2020** BWR A/Stable	-	-	-
	Total		**1238.25**	**Rupees One Thousand Two Hundred and Thirty Eight Crores and Twenty Five Lakhs Only**				

^Press Release in the form of *Credit Update was published on 30 Jun 2020 & 13 Nov 2020*

b) Bank Loan Facilities

Sl. No.	Facility	Current Rating (Aug 2021)			Rating History^			
		Type	Amount (Rs Crs)	Rating	2020@	2019	24 Jul 2018*	2017
1	Cash Credit (Sublimit of NFB)	Long Term	(50.00)	BWR A/ Stable	**17 Feb 2020** BWR A/Stable/A1 **19 May 2020** BWR A/Stable/A1 **31 Jul 2020** BWR A/Stable/A1	**27 Aug 2019**** BWR A/Stable/A1 **12 Jun 2019***** BWR AA-/A1+ Credit Watch with Developing Implications **07 Jan 2019***** BWR AA-/Stable/A1+	BWR AA-/ Stable	-
2	WCDL/LC/ BG/ SBLC	Short Term	100.00	BWR A1			BWR A1+	
3	Proposed LC/BG/ SBLC		100.00					
	Total		**200.00**	**Rupees Two Hundred Crore Only**				

***Rated amount-Rs. 1656.50 Cr; **Rated amount-Rs. 1749 Cr; ***Rated amount-Rs. 1741.50 Cr; @Rated amount - Rs. 200 crs;** ^Press Release in the form of *Credit Update was published on 30 Jun 2020 & 13 Nov 2020*

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

[General Criteria](#) [Approach to Financial Ratios](#)

[Manufacturing Companies](#) [Short Term Debt](#)

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Chemplast Sanmar Limited

Annexure I- Instrument Details

Instrument	Issue Date	Amount (Rs Crs)	Coupon (% p.a.)*	Maturity Date	ISIN
NCD Trache I	20-Dec-2019	550.88	17.50%	20-Dec-2026	INE488A07073
NCD Tranche III	20-Dec-2019	214.50	17.50%	20-Dec-2026	
NCD Tranche II	20-Dec-2019	472.87	17.50%	20-Dec-2026	INE488A07065
Total		**1238.25**	**Rupees One Thousand Two Hundred and Thirty Eight Crores and Twenty Five Lakhs Only**		

*Payable monthly on the last day of every month

Annexure II : Details of the bank loan facilities rated (Rs. Crs)

Sl No	Name of the Bank	Name of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1.	CTBC Bank	WCDL^/LC/BG/ SBLC	-	50.00	50.00
2	Indian Overseas Bank	Letter of Credit/ BG/LG/CC/	-	50.00	50.00
3	Proposed	LC/BG/ SBLC/CC	(50.00)	100.00	100.00
	Total		**(50.00)**	**200.00**	**200.00**

*Sub-limits of Non-fund based LC facilities;^ *WCDL tenure is upto 30 days.*

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