SANMAR

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

December 3, 2024

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/Madam,

Subject: **Notification under Regulation 30 of the SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015 – Credit Ratings**

Pursuant to the relevant provisions of SEBI (Listing Obligations and Disclosure Requirements), Regulations 2015, we would like to inform you that CRISIL Ratings have re-affirmed the ratings and retained the outlook for both Chemplast Sanmar Limited and its wholly-owned subsidiary, Chemplast Cuddalore Vinyls Limited. The details are as mentioned below:

1) **Chemplast Sanmar Limited**: Ratings have been re-affirmed and the outlook has been retained as negative. The quantum of Bank loan facilities remains unaltered at Rs. 1710 Cr

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	**CRISIL AA- / Negative**	Re-affirmed
2	Short Term - Bank Facilities (Non-Fund Based)	**CRISIL A1+**	Re-affirmed

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2) **Chemplast Cuddalore Vinyls Limited**: Ratings have been re-affirmed and the outlook has been retained as negative. The quantum of Bank loan facilities remains unaltered at Rs. 2550 Cr

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	**CRISIL AA- / Negative**	Re-affirmed
2	Short Term - Bank Facilities (Non-Fund Based)	**CRISIL A1+**	Reaffirmed

This is for your information and records.

The rating rationale dated 2nd December 2024 published by CRISIL Ratings Ltd. are enclosed herewith.

Date & Time of occurrence of the event/information: December 3, 2024, 2:37 PM (IST)

Yours faithfully,

For CHEMPLAST SANMAR LIMITED

RAMAN MAHADEVAN Digitally signed by RAMAN MAHADEVAN Date: 2024.12.03 17:23:38 +05'30'

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

Rating Rationale

December 02, 2024 | Mumbai

Chemplast Sanmar Limited

Ratings reaffirmed at 'CRISIL AA-/Negative/CRISIL A1+'

Rating Action

Total Bank Loan Facilities Rated	**Rs.1710 Crore**
Long Term Rating	**CRISIL AA-/Negative (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

Note: None of the Directors on CRISIL Ratings Limited's Board are members of rating committee and thus do not participate in discussion or assignment of any ratings. The Board of Directors also does not discuss any ratings at its meetings.
1 crore = 10 million
Refer to Annexure for Details of Instruments & Bank Facilities

Detailed Rationale

CRISIL Ratings has reaffirmed the ratings on bank facilities of Chemplast Sanmar Limited (CSL) at 'CRISIL AA-/Negative/CRISIL A1+'

In the first half of fiscal 2025, CSL's realizations from Paste polyvinyl chloride (P-PVC) improved with implementation of provisional anti-dumping duty levied on imports from select countries and increase in freight costs, which benefitted domestic prices. Besides, the realizations of Caustic Soda remained stable while that of Chloromethanes improved with recovery in end use demand. Further, higher volumes of paste PVC (additional 41,000 tonne commenced operations towards end of last fiscal) and offtake from custom manufactured chemicals division (CMCD) enabled revenues growth of 8% y-o-y in the first half of fiscal 2025. Also, operating profitability improved to 7.2% (lower than 8% anticipated but better than 0.6% in first half of fiscal 2024) with benefit of increase in paste PVC realizations, though some impact was seen in the second quarter as imports from countries where anti-dumping duty on paste PVC was not applicable started dumping the product into the Indian market. The Indian government is likely to introduce anti-dumping duties from these countries too which should help stabilize realizations.

CSL's revenues are expected to grow by 12-15% in fiscal 2025 driven by higher PVC volumes and improvement in realizations of suspension PVC or S-PVC (60% of consolidated revenues) with expected implementation of provisional anti-dumping duty in the near term, which will support domestic prices. Besides, improved revenue from CMCD post commencement of phase 2 operations will also support revenue growth. However, realizations for paste PVC are expected to witness limited improvement due to intense competition, mainly from imports. Operating profitability is expected at 7-8% for fiscal 2025 with operating profits recovering in the second half of fiscal 2025 (Rs 22 crores in fiscal 2024). Over the medium term, the revenues are expected to sustain a steady growth driven by offtake in CMCD and further improvement in realizations with reduced dumping from China. Operating profitability is expected to recover above 10% over the medium term. Any prolonged delay in recovery of realizations and muted offtake from CMCD, which will limit the improvement in profitability might result in a downgrade.

CSL's financial risk profile remains adequate, despite average debt protection metrics, supported by ~Rs 670 crore of unencumbered cash and cash equivalents as on September 30, 2024. Due to lower profitability and capex related debt, debt metrics moderated significantly in fiscal 2024. CSL, at consolidated level, incurred capex of around Rs 1150 crores towards expansion of paste PVC and custom manufacturing (phase 1&2) capacity over fiscals 2023 and 2024 which led to rise in gross debt to Rs 1542 crores at March 31,2024 from Rs 867 crores as on March 31, 2022. CSL, due to better demand visibility, has decided to further invest in expanding the capacity of (phase 3 & 4) at CMCD which will incur a capex of around Rs 160 crores which will be incurred over 12-18 months. Owing to the capex , the debt levels are expected to remain around Rs 1400-1500 crores estimated as on March 31, 2025. Improvement in operating profits and sustenance of cash surplus will reduce the net debt/EBITDA and improve the interest cover to ~2 times for fiscal 2025 (33.1 times and 0.57 times in fiscal 2024 respectively); this however, will be a key monitorable.

Earlier, on January 2,2024, the outlook on the long-term bank facilities of CSL was revised to 'Negative' from 'Stable' owing to two consecutive years of decline in revenues due to steep moderation in realizations of both S-PVC and paste PVC (80% of consolidated revenues), following increased cheaper supplies from China. In addition, the other business segments such as caustic soda , chloromethanes and custom manufacturing also faced headwinds with realisations dropping, leading to revenues witnessing a degrowth of 21% year-on-year in fiscal 2024, with operating profitability declining to 0.6%.

The ratings continue to factor CSL's established market presence in the PVC segment (both paste, and S-PVC through its subsidiary, Chemplast Cuddalore Vinyls Ltd (CCVL, rated 'CRISIL AA-/Negative'/CRISIL A1+'), 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 and integrated nature of operations. However, these strengths are partially offset by commoditized nature of products (S-PVC) which lends variability to operating margins, and the company's moderate financial risk profile. Besides there is also high import dependence of key raw materials for PVC business (VCM and EDC), which exposes the company to risk in foreign exchange fluctuations. CSL is diversifying its businesses by adding more capacity in their higher margin speciality businesses such as paste PVC and custom manufacturing to mitigate this risk. CSL also uses plain vanilla forwards to hedge its imports to reduce forex risk.

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:

- **Diverse revenue streams and healthy demand prospects:** 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 specialty paste PVC business (~80% market share basis production capacity and ~45% considering imports) and second largest player in the S-PVC business (~20% market share basis production capacity and ~10% considering imports). The company has also undertaken complex custom manufacturing chemicals of starting materials and intermediates for consumption by life sciences and fine chemical sectors, adding to its business diversity. In addition, CSL also manufactures caustic soda chloro-methanes, refrigerant gases and hydrogen peroxide. .

  Revenue visibility over the medium term will be driven by steady demand for both suspension and specialty paste PVC resin and custom manufacturing businesses, while contribution from the chlor alkali segment is expected to remain stable. PVC realizations dipped in fiscal 2023 and fiscal 2024 post highs witnessed in fiscals 2021 and 2022 but are expected to stabilize in the medium term. Demand will continue to benefit from the large demand supply mismatch in India and established market position of CSL in the domestic markets. The expansion in the specialty paste PVC resin segment has further strengthened CSL's market position in the domestic sector. Also, capex in the CMC business will ensure further diversification in revenue streams as well as strengthen the overall business risk profile.

- **Integrated nature of operations:** CSL's plant at Mettur for manufacturing of specialty paste PVC resin and chlor alkalis is highly integrated with captive salt mines (on lease) 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 specialty 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 and CCVL have their 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. Operating margin which were at below 1% in fiscal 2024 due to lower PVC realizations are expected to improve to 7-8% in fiscal 2025 and over 10% in the medium term with stable PVC prices and supported by higher paste PVC and custom manufacturing volumes.

- **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 Chemicals S.A.E, TCIS, rated 'CRISIL BBB-/Negative/CRISIL A3) 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 over 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 successful IPO of CSL wherein it raised Rs 3850 crore in August 2021.

Weaknesses:

- **Moderate though improving financial risk profile:** Financial risk profile of the company is moderate but improving supported by better profitability, which will aid cash generation. Cash surplus of almost Rs.700 crore also supports the financial risk profile.

  CSL is incurring capex of Rs 160 crore towards for enhancing customs manufacturing capacity due to better order visibility. Phase-1 & 2 of the CMCD has been already completed. Due to better order visibility, CSL has decided to expand the custom manufacturing capacity further with phase 3 and phase 4. Phase 3 will be completed and commence operations by next fiscal. Civil and infra for phase 4 will be ready by next fiscal. These projects will be funded by mix of debt and accruals/liquid surpluses. Total debt is expected at Rs 1400- 1500 crore at end of fiscal 2025; resulting in continuing moderate debt metrics, despite some improvement. For instance, net debt/EBITDA and interest cover is expected at ~2 times each for fiscal 2025, compared with 33.1 times and 0.57 times in fiscal 2024 respectively. Further improvement in these metrics is expected over the medium term, with better contribution from CMCD and stablisation of PVC realisations.

- **Vulnerability to fluctuations in PVC prices and regulatory risk:** Profitability of PVC manufacturing companies depends on the prevailing PVC and VCM prices. Cyclical downturns have resulted in variations in operating profitability for these players including CSL. Import of PVC currently attracts an import duty of 7.5% (earlier at 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. PVC prices are also significantly affected due to fluctuations in supply of PVC from China, which is the largest consumer and producer of PVC. The slowdown in their domestic economy has led to huge quantities being dumped in the global markets, especially India, resulting in considerable correction in PVC prices since fiscal 2023.

CSL is rationalizing other fixed costs and expanding its custom chemicals manufacturing business which will partially insulate the margins from fluctuating PVC prices. The PVC segment will however continue to contribute significant portion of the operating profits.

- **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-methane and suspension PVC respectively. CSL imports close to 90% of its raw material requirements, which exposes its profitability to forex fluctuations. However, pricing of PVC products (paste and suspension resin) 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.

Liquidity: Strong
Liquidity is expected to remain strong supported by cash and cash equivalents of ~Rs 671 crores at September 30, 2024, and CRISIL Ratings expectations that CSL will maintain surpluses of at least Rs. 700-800 crore in the medium term. Cash accruals are expected to be around Rs 160-180 crores in fiscal 2025 against annual debt repayment of Rs 182 crore. Any shortfall will be funded through cash surplus. Cash accruals thereafter will be higher and along with surpluses suffice to meet annual debt repayment of Rs 100-120 crore till fiscal 2027.

Outlook: Negative
CRISIL Ratings expects that over the near to medium term, CSL's performance will witness a gradual recovery supported by steady sale volume across its businesses, anticipation of stabilisation in PVC prices and increased contribution from CMCD. This will also lead to better operating profitability and cash generation, which along with prudent capex spend, strengthen its financial risk profile and key debt protection metrics, from current moderate levels. No support is expected to be rendered to associate entities or to the holding company over the medium term.

Rating sensitivity factors
Upward Factors:
- Strong revenue growth and sustenance of operating margins above ~10-12%, supported by better revenue diversity and increased contribution from CMCD, leading to higher cash generation
- Sustained improvement in financial risk profile supported by increased cash generation, prudent capex spending, and better working capital management reflecting in healthy debt metrics; for instance net debt/EBITDA sustaining below 2.5 times

Downward Factors:
- Significant moderation in business performance with operating margins sustaining below 7-8%, also impacting cash generation
- Significant increase in debt levels due to capex, acquisitions, or elongation of working capital cycle impacting key debt metrics; for instance, net debt/EBIDTA in excess of 3.5 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 107,000 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 custom manufactured chemicals across 3 locations in Tamil Nadu. Additionally, CCVL has manufacturing capacity of 331,000 tpa of S-PVC at Cuddalore.

For the six month period ended September 30, 2024, CSL reported a net loss of Rs 7 crore on net sales of Rs. 2138 crore, compared with net loss of Rs. 38 crore on net sales of Rs. 1984 crore during corresponding period of previous fiscal.

Key Financial Indicators*

Particulars	Unit	2024	2023
Revenue	Rs. Crore	3924	4942
Profit After Tax (PAT)	Rs. Crore	(115)	181
PAT Margin	%	(2.9)	3.7
Adjusted Debt/Adjusted net worth	Times	22.71	3.33
Interest Coverage	Times	0.57	3.46

**CRISIL Ratings Adjusted*

Any other information: Not Applicable

Note on complexity levels of the rated instrument:
CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where

applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

For more details on the CRISIL Ratings` complexity levels please visit www.crisilratings.com. Users may also call the Customer Service Helpdesk with queries on specific instruments.

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	160	NA	CRISIL AA-/Negative
NA	Letter of Credit#	NA	NA	NA	50	NA	CRISIL AA-/Negative
NA	Letter of Credit%	NA	NA	NA	110	NA	CRISIL AA-/Negative
NA	Letter of Credit^	NA	NA	NA	150	NA	CRISIL AA-/Negative
NA	Letter of Credit$	NA	NA	NA	120	NA	CRISIL AA-/Negative
NA	Letter of Credit*	NA	NA	NA	100	NA	CRISIL AA-/Negative
NA	Letter of Credit	NA	NA	NA	10	NA	CRISIL AA-/Negative
NA	Letter of Credit**	NA	NA	NA	100	NA	CRISIL AA-/Negative
NA	Letter of Credit&	NA	NA	NA	95	NA	CRISIL AA-/Negative
NA	Cash Credit$	NA	NA	NA	20	NA	CRISIL AA-/Negative
NA	Cash Credit&	NA	NA	NA	1	NA	CRISIL AA-/Negative
NA	Cash Credit@	NA	NA	NA	1	NA	CRISIL AA-/Negative
NA	Term Loan**	NA	NA	31-Mar-30	160	NA	CRISIL AA-/Negative
NA	Term Loan*	NA	NA	30-Sep-30	100	NA	CRISIL AA-/Negative
NA	Term Loan^	NA	NA	30-Sep-30	250	NA	CRISIL AA-/Negative
NA	Term Loan$	NA	NA	31-Mar-31	275	NA	CRISIL AA-/Negative
NA	Proposed Non Fund based limits	NA	NA	NA	8	NA	CRISIL A1+

 # Rs 50 crores sub limit for BG / SBLC for Buyers' Credit; Rs. 20 crores sub-limit of bank guarantee; Rs 20 crores sub limit for OD/CC
** Rs 100 crores sub limit for bank guarantee (BG)/standby letter of credit (SBLC) for Buyers Credit; Rs 10 crore sub limit of Bank Guarantee / WCDL / CC; Rs 100 crores capex LC & FBG / SBLC for availing Buyers' Credit as sub-limit of term loan*
$ Rs 100 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 30 crore sub limit of OD/CC; Rs. 50 crores sub-limit of capex LC; Rs. 20 crores OD/CC limit fully interchangeable with LC limits
^ Rs 25 crore sub-limit of EPC/PCFC/CC/WCDL; Rs. 80 crores capex LC as sub-limit of term loan
% Rs. 60 crores sub-limit for Packing Credit; Rs. 25 crores for bank guarantee; Rs. 10 crores sub-limit as WCDL; Rs 5 crore sub-limit for CC/OD
*** Rs 100 crore sub limit for Packing Credit; Rs 30 crore sublimit for WCDL/CC*
@ Rs. 120 crores sub-limit for Packing Credit; Rs 50 crore sublimit for BG; Rs 25 crore sublimit for WCDL; Rs. 50 crores as sub-limit for capex LC
& Rs 95 crores sublimit for SBLC for Buyer's Credit; Rs 30 crores sub limit for BG

Annexure – List of entities consolidated

Names of Entities Consolidated	Extent of Consolidation	Rationale for Consolidation
Chemplast Cuddalore Vinyls Ltd	Full	100% Subsidiary; business linkages and common management

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	807.0	CRISIL AA-/Negative	02-01-24	CRISIL AA-/Negative	05-04-23	CRISIL AA-/Stable		--		--	--
Non-Fund Based Facilities	ST/LT	903.0	CRISIL AA-/Negative / CRISIL A1+	02-01-24	CRISIL AA-/Negative / CRISIL A1+	05-04-23	CRISIL A1+ / CRISIL AA-/Stable	12-04-22	CRISIL A1+ / CRISIL AA-/Stable	30-09-21	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
Cash Credit&	**20**	**State Bank of India**	**CRISIL AA-/Negative**
Cash Credit^	**1**	**CTBC Bank Co Limited**	**CRISIL AA-/Negative**
Cash Credit%	**1**	**IDBI Bank Limited**	**CRISIL AA-/Negative**

Letter of Credit^	100	CTBC Bank Co Limited	CRISIL AA-/Negative
Letter of Credit	10	State Bank of India	CRISIL AA-/Negative
Letter of Credit#	150	ICICI Bank Limited	CRISIL AA-/Negative
Letter of Credit%	95	IDBI Bank Limited	CRISIL AA-/Negative
Letter of Credit!	100	IndusInd Bank Limited	CRISIL AA-/Negative
Letter of Credit~	50	Indian Overseas Bank	CRISIL AA-/Negative
Letter of Credit<	100	YES Bank Limited	CRISIL AA-/Negative
Letter of Credit&	120	State Bank of India	CRISIL AA-/Negative
Letter of Credit&&	110	DBS Bank India Limited	CRISIL AA-/Negative
Letter of Credit^	60	CTBC Bank Co Limited	CRISIL AA-/Negative
Proposed Non Fund based limits	8	Not Applicable	CRISIL A1+
Term Loan!	160	IndusInd Bank Limited	CRISIL AA-/Negative
Term Loan<	100	YES Bank Limited	CRISIL AA-/Negative
Term Loan#	250	ICICI Bank Limited	CRISIL AA-/Negative
Term Loan&	275	State Bank of India	CRISIL AA-/Negative

& - Rs 100 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 30 crore sub limit of OD/CC; Rs. 50 crores sub-limit of capex LC; Rs. 20 crores OD/CC limit fully interchangeable with LC limits
^ - Rs. 120 crores sub-limit for Packing Credit; Rs 50 crore sublimit for BG; Rs 25 crore sublimit for WCDL; Rs. 50 crores as sub-limit for capex LC
% - Rs 95 crores sublimit for SBLC for Buyer's Credit; Rs 30 crores sub limit for BG
 # - Rs 25 crore sub-limit of EPC/PCFC/CC/WCDL; Rs. 80 crores capex LC as sub-limit of term loan
! - Rs 100 crore sub limit for Packing Credit; Rs 30 crore sublimit for WCDL/CC
~ - Rs 50 crores sub limit for BG / SBLC for Buyers' Credit; Rs. 20 crores sub-limit of bank guarantee; Rs 20 crores sub limit for OD/CC
< - Rs 100 crores sub limit for bank guarantee (BG)/standby letter of credit (SBLC) for Buyers Credit; Rs 10 crore sub limit of Bank Guarantee / WCDL / CC; Rs 100 crores capex LC & FBG / SBLC for availing Buyers' Credit as sub-limit of term loan
&& - Rs. 60 crores sub-limit for Packing Credit; Rs. 25 crores for bank guarantee; Rs. 10 crores sub-limit as WCDL; Rs 5 crore sub-limit for CC/OD

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
CRISILs Criteria for rating short term debt

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Poonam Upadhyay Director **CRISIL Ratings Limited** D:+91 22 6172 3385 poonam.upadhyay@crisil.com Sree Sankar Manager **CRISIL Ratings Limited** B:+91 44 6656 3100 Sree.Madhu@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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CRISIL
Ratings

Rating Rationale

December 02, 2024 | Mumbai

Chemplast Cuddalore Vinyls Limited

Ratings Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.2550 Crore**
Long Term Rating	**CRISIL AA-/Negative (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Chemplast Cuddalore Vinyls Limited (CCVL) at 'CRISIL AA-/Negative/CRISIL A1+'

The rating action follows reaffirmation of ratings of CCVL's parent, Chemplast Sanmar Ltd (CSL), whose ratings have been reaffirmed at 'CRISIL AA-/Negative/CRISIL A1+' .Earlier, on January 2, 2024, the outlook on the long term bank facilities of CSL was revised to 'Negative' from 'Stable' following a similar action on the outlook of its parent, CSL and moderation in the business risk profile of CCVL due to declining realization in suspension PVC (S-PVC) prices, in fiscal 2024, the second year in succession.

The moderation in S-PVC prices, which commenced in fiscal 2023, continued in fiscal 2024 with realizations declining by 19% on-year, post witnessing a decline of 29% in fiscal 2023. The moderation was driven by dumping of S-PVC from China and other countries due to excess inventory amid subdued local Chinese demand which impacted domestic S-PVC prices. Despite over 50% of the domestic demand of PVC being imported due to limited domestic capacity, lower PVC realizations and sharp decline in PVC-VCM spread impacted revenues which declined by 18% in fiscal 2024. Operating profitability dropped to 3.5% in fiscal 2024 (5.4% in fiscal 2023). That said, volumes were flat in fiscal 2024.

CCVL's revenues are expected to grow by 4-6% in fiscal 2025 driven by expected improvement in realization of S-PVC post implementation of provisional anti-dumping duty and pick-up in domestic volumes in the second half of fiscal 2025. In the first half of fiscal 2025, S-PVC realizations increased by 2% on-year due to increase in freight costs; however, volumes declined by 10% due to increase in sales of lower priced imported S-PVC. Operating profitability improved in first half of fiscal 2025 to 8.6% (3.4% in the corresponding period last fiscal) due to better PVC-VCM spreads which led to improvement in earnings before interest, tax, depreciation and amortization (EBITDA) per ton to Rs 6500-6600 per ton compared to Rs 2500-2600 per ton in the first half of fiscal 2024. Operating profitability is expected to increase to 7-8% supported by better PVC-VCM spreads and improvement in EBITDA per ton in fiscal 2025. With stabilization of S-PVC prices and spreads, operating margins are expected at ~8% over the medium term.

CCVL's financial risk profile moderated in fiscal 2024 due to weak profitability also impacting debt metrics; the interest coverage ratio and net debt/EBITDA declined to below 1 time and 4.34 times (0.84 times in fiscal 2023) in fiscal 2024. Healthy cash reserves (~Rs.400 crores on September 30, 2024) will continue to support CCVL's financial risk profile. Annual cash generation in fiscals 2025 and 2026 may not suffice to entirely meet long term debt obligations of Rs 110-140 crore, necessitating dipping into the cash surpluses.

CRISIL Ratings also expects CCVL's financial profile to improve gradually over the near to medium term with better profitability, and progressive debt reduction with capex spend expected to be modest. Net debt/EBITDA is expected to be below 2 times in fiscal 2025 and further improve to below 1.5 times over the medium term. The improvement in key debt metrics will remain monitorable.

The ratings continue to reflect CCVL's established market presence in the S-PVC segment by virtue of being the second largest domestic player, long standing relationship with customers and suppliers, strong brand recall 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, and the strong support from and interlinkages with its parent, CSL. These strengths are partially offset by moderate financial risk profile, vulnerability of profitability to fluctuations in PVC prices and high dependence on raw material imports thereby exposing to risk of forex fluctuations. However, CCVL also uses plain vanilla forwards to hedge its imports to reduce forex risk.

Analytical Approach

For arriving at the ratings, CRISIL Ratings applied its parent notch up framework and factored support from its parent, CSL. This is because CCVL is an integral part of CSL and contributes to ~60% of the consolidated revenues. Besides, there are strong operational and financial linkages.

CCVL revalued its assets in fiscal 2019 and created a revaluation reserve of Rs. 500 crores. The same has been adjusted against the net worth and fixed assets. Depreciation has also been considered without the impact of revaluation of assets, and accordingly profit after tax has been adjusted from fiscal 2019 onwards.

Key Rating Drivers & Detailed Description
Strengths:

- **Healthy domestic market share and demand prospects:** CCVL is the second largest producer of suspension PVC in the domestic market only behind Reliance Industries Limited. It increased its total capacity from 300,000 MT per annum to 331,000 MT per annum in fiscal 2023 through internal process improvement. Even though the revenues declined in fiscal 2024, volumes remained stable. With steady demand, utilization is expected to remain high at above 90% in the medium term. Total Indian consumption of PVC is expected at over 4.0 MMT in 2025 out of which only 1.5 MMT capacity is available domestically. More than 50% of the domestic requirement is imported. As the construction activity continues to grow, the demand for PVC is expected to remain strong in the medium term, especially from the pipes sector.

  Imports are expected to continue to serve over ~50% of the domestic demand for S-PVC market due to lower capacity addition by the PVC players which is due to high capex requirements and the need to import the key inputs. PVC realizations dipped in fiscal 2023 and fiscal 2024 post highs witnessed in fiscals 2021 and 2022 but are expected to stabilize in the medium term. Demand will continue to benefit from the large demand supply mismatch in India and market leadership position in the domestic markets.

- **Experience of Sanmar Group in the chemicals and PVC business:** The Sanmar group has been engaged in the manufacturing of chemicals and PVC 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, rated 'CRISIL BBB-/Negative/A3) 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 over 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 successful IPO of CSL wherein it raised Rs 3850 crore in August 2021.

- **Parent support expected to be forthcoming:** CCVL is an integral part of CSL, and accounts for sizeable portion of consolidated revenues and profits. CSL and CCVL share common management, treasury and financial teams, reflecting CSL's continuing support. CRISIL Ratings expects timely financial support from CSL will be forthcoming in the event of any financial distress.

Weaknesses:

- **Moderate financial risk profile:** Financial risk profile of the company is expected to improve in the near to medium term, albeit remain moderate due to modest operating profitability even though no additional debt is expected to be added. Interest cover, which declined to 0.83 times in fiscal 2024, is expected to improve to over 1.5 times over the medium term, supported by better profitability. Net Debt / EBITDA earlier increased to 4.34 times in fiscal 2024 (0.84 times in fiscal 2023) due to dip in profitability. Improvement in PVC realizations and spread over VCM will be key monitorables in the medium term.

- **Vulnerability of profitability to fluctuations in PVC prices, and long credit period:** Profitability of PVC manufacturing companies depends on the prevailing PVC prices and PVC-VCM spreads. PVC-VCM spreads have been impacted since fiscal 2023 due to excess supply of cheaper Chinese PVC in the domestic market. Cyclical downturns have resulted in variations in operating profitability in the past for these players. Import of PVC currently attracts an import duty of 7.5% (earlier 10%) while duties on import of key raw materials is negligible. Any adverse change in duty structure will impact operating margins.

  CCVL is highly dependent on imports of VCM as raw material for its products. Due to long vintage and established relationship with suppliers, company receives a long credit period. On the sales side however, collection is quick as sales are almost on a cash and carry model. Inventory period is also low at 30-35 days 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, since most of the imports are backed by Letter of Credit (LCs) on a hedged basis, company has to incur higher costs for the long credit period, which too impacts profitability.

- **High dependence on imports for key raw materials thereby exposing company to risk of forex fluctuations:** CCVL has high import requirements for procuring VCM and imports ~100% if its raw material requirements. This exposes the company to forex fluctuations as it has low exports. However, pricing of PVC products are generally dollar linked on import parity basis providing partial natural hedge. Further, CCVL also uses plain vanilla forwards to hedge its imports to mitigate forex risk

Liquidity: Strong
Liquidity is strong marked by healthy cash reserves of Rs 400 crore as on September 30, 2024. The company has only moderate capex plans of Rs 12-15 crore per annum and annual debt repayment of Rs 110-140 crore in fiscals 2025 and 2026. However, due to improving though moderate profitability, cash accruals are expected to be modest and annual debt repayment will be partly supported by cash surpluses. The company also does not have any fund based working capital debt utilization in the past 12 months. However, as all of the raw material is purchased through letter of credit (LC), average utilization of non-fund based bank limits especially LC remained at ~72% in the past 10 months ended September 2024.

CCVL has stable collection of Rs 220-250 crore per month which is sufficient for monthly letter of credit LC repayment of Rs 180-200 crore.

Outlook: Negative

CRISIL Ratings expects CCVL will continue to remain an integral part of CSL and will continue to have strong operational and financial linkages with CSL. CCVL is also expected to maintain its strong market position in the domestic PVC segment. CRISIL expects the PVC prices to recover in the medium term and stabilize with gradual improvement in the Chinese economy. Stable PVC prices and PVC-VCM spread will lead to better operating profitability and cash generation. CCVL's financial risk profile is moderate and expected to improve gradually driven by better cash generation and along with progressive debt reduction, benefit its debt metrics. The outlook on CCVL is linked to that of its parent, CSL.

Rating Sensitivity Factors

Upward Factors:

- Upgrade in rating of CSL by one notch or more or revision in outlook
- Improvement in operating performance with EBITDA sustaining above Rs. 12,000-14000 per ton
- Sustained improvement in financial risk profile and debt metrics

Downward Factors:

- Downgrade in rating of CSL by 1 notch or more or revision in outlook, could result in a similar rating action on CCVL; change in stance of support to CCVL by CSL
- Significant moderation in business performance impacting cash generation
- High debt levels due to capex or elongation of working capital cycle leading to continued deterioration in key debt metrics ; for instance net-debt/EBIDTA in excess of 3.5-3.75 times
- Material support, direct or indirect, to CSL, promoter holding company or associate companies, especially TCIS.

About the Company

CCVL, part of the South India based Sanmar Group, is among the leading PVC players in India. CCVL is a 100% subsidiary of CSL (acquired in fiscal 2021). CSL transferred its suspension PVC business to CCVL in fiscal 2018 and CCVL currently has an installed capacity of 331,000 MTPA at Cuddalore, Tamil Nadu.

For the six-month period ended September 30, 2024, CCVL reported a net profit of Rs 3 crore on net sales of Rs. 1062 crore, compared with net loss of Rs. 24 crores on net sales of Rs. 1284 crore during corresponding period of previous fiscal.

About CSL

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 107,000 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 custom manufactured chemicals across 3 locations in Tamil Nadu. Additionally, CCVL has manufacturing capacity of suspension PVC of 331,000 tpa at Cuddalore.

For the six month period ended September 30, 2024, CSL reported a net loss of Rs 7 crore on net sales of Rs. 2138 crore, compared with net loss of Rs. 38 crore on net sales of Rs. 1984 crore during corresponding period of previous fiscal.

Key Financial Indicators*

Particulars	Unit	2024	2023
Revenue	Rs.Crore	2448	3000
Profit After Tax (PAT)	Rs.Crore	(56)	11
PAT Margin	%	(2.3)	0.4
Adjusted Debt/Adjusted networth	Times	(0.88)	NM
Interest Coverage	Times	0.83	1.54

**CRISIL Ratings Adjusted*

Any other information: Not Applicable

Note on complexity levels of the rated instrument:

CRISIL Ratings` complexity levels are assigned to various types of financial instruments and are included (where applicable) in the 'Annexure - Details of Instrument' in this Rating Rationale.

CRISIL Ratings will disclose complexity level for all securities - including those that are yet to be placed - based on available information. The complexity level for instruments may be updated, where required, in the rating rationale published subsequent to the issuance of the instrument when details on such features are available.

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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	Term Loan	NA	NA	31-May-30	443	NA	CRISIL AA-/Negative
NA	Term Loan	NA	NA	31-May-30	80	NA	CRISIL AA-/Negative
NA	Term Loan	NA	NA	31-May-30	80	NA	CRISIL AA-/Negative

NA	Term Loan	NA	NA	30-Jun-29	33	NA	CRISIL AA-/Negative
NA	Term Loan	NA	NA	30-Apr-33	108	NA	CRISIL AA-/Negative
NA	Cash Credit!	NA	NA	NA	10	NA	CRISIL AA-/Negative
NA	Letter of Credit!	NA	NA	NA	195	NA	CRISIL AA-/Negative
NA	Letter of Credit~	NA	NA	NA	150	NA	CRISIL AA-/Negative
NA	Letter of Credit&	NA	NA	NA	200	NA	CRISIL AA-/Negative
NA	Letter of Credit<	NA	NA	NA	110	NA	CRISIL AA-/Negative
NA	Letter of Credit$	NA	NA	NA	450	NA	CRISIL AA-/Negative
NA	Letter of Credit#	NA	NA	NA	225	NA	CRISIL AA-/Negative
NA	Letter of Credit^	NA	NA	NA	45	NA	CRISIL AA-/Negative
NA	Letter of Credit%	NA	NA	NA	140	NA	CRISIL AA-/Negative
NA	Letter of Credit**	NA	NA	NA	150	NA	CRISIL AA-/Negative
NA	Proposed Non Fund based limits	NA	NA	NA	75	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	56	NA	CRISIL AA-/Negative

! - Rs 6 crore WCDL as sublimit
~ - Rs 150 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sublimit for WCDL/CC/OD
&- Rs 5 crore sublimit for CC
< - Rs 15 crore sublimit for BG; Rs 5 crore sub limit for OD/CC
$ - Rs 5 crore sub limit for bank guarantee (BG), Rs 450 crore sublimit for standby letter of credit (SBLC) for Buyers Credit; Rs 15 crore sub limit of overdraft (OD)/cash credit (CC); Rs 15 crore sub limit of WCDL
 # - Rs 150 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 30 crore sub limit of OD/CC
^ - Rs 5 crore sub limit for WCDL; Rs 20 crore sublimit for BG
% - Rs 50 crore sublimit for BG; Rs 75 crore sub limit for SBLC for Buyers Credit Rs 10 crore sub limit for OD/CC
*** - Rs 150 crore sub limit for SBLC for Buyers Credit; Rs 10 crore sub limit of OD/CC; Rs 25 crore sub limit of WCDL*

Annexure - Rating History for last 3 Years

	Current			2024 (History)		2023		2022		2021		Start of 2021
Instrument	**Type**	**Outstanding Amount**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Date**	**Rating**	**Rating**
Fund Based Facilities	LT	810.0	CRISIL AA-/Negative	02-01-24	CRISIL AA-/Negative	05-04-23	CRISIL AA-/Stable	12-04-22	CRISIL AA-/Stable	11-11-21	CRISIL A+/Positive	--
Non-Fund Based Facilities	ST/LT	1740.0	CRISIL AA-/Negative / CRISIL A1+	02-01-24	CRISIL AA-/Negative / CRISIL A1+	05-04-23	CRISIL A1+ / CRISIL AA-/Stable	12-04-22	CRISIL A1+ / CRISIL AA-/Stable	11-11-21	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
Cash Credit!	**10**	**ICICI Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit%	**140**	**IDBI Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit&	**200**	**IndusInd Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit**	**150**	**The Hongkong and Shanghai Banking Corporation Limited**	**CRISIL AA-/Negative**
Letter of Credit^	**45**	**CTBC Bank Co Limited**	**CRISIL AA-/Negative**
Letter of Credit!	**195**	**ICICI Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit~	**150**	**RBL Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit<	**110**	**Indian Overseas Bank**	**CRISIL AA-/Negative**
Letter of Credit$	**450**	**YES Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit#	**225**	**IDFC FIRST Bank Limited**	**CRISIL AA-/Negative**
Proposed Long Term Bank Loan Facility	**56**	**Not Applicable**	**CRISIL AA-/Negative**
Proposed Non Fund based limits	**75**	**Not Applicable**	**CRISIL A1+**
Term Loan	**80**	**RBL Bank Limited**	**CRISIL AA-/Negative**
Term Loan	**80**	**IDFC FIRST Bank Limited**	**CRISIL AA-/Negative**
Term Loan	**108**	**Not Applicable**	**CRISIL AA-/Negative**
Term Loan	**33**	**ICICI Bank Limited**	**CRISIL AA-/Negative**
Term Loan	**443**	**IndusInd Bank Limited**	**CRISIL AA-/Negative**

! - Rs 6 crore WCDL as sublimit
~ - Rs 150 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sublimit for WCDL/CC/OD
&- Rs 5 crore sublimit for CC
< - Rs 15 crore sublimit for BG; Rs 5 crore sub limit for OD/CC
$ - Rs 5 crore sub limit for bank guarantee (BG), Rs 450 crore sublimit for standby letter of credit (SBLC) for Buyers Credit; Rs 15 crore sub limit of overdraft (OD)/cash credit (CC); Rs 15 crore sub limit of WCDL
 # - Rs 150 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 30 crore sub limit of OD/CC
^ - Rs 5 crore sub limit for WCDL; Rs 20 crore sublimit for BG
% - Rs 50 crore sublimit for BG; Rs 75 crore sub limit for SBLC for Buyers Credit Rs 10 crore sub limit for OD/CC
*** - Rs 150 crore sub limit for SBLC for Buyers Credit; Rs 10 crore sub limit of OD/CC; Rs 25 crore sub limit of WCDL*

Criteria Details

Links to related criteria
CRISILs Approach to Financial Ratios
Rating criteria for manufaturing and service sector companies
CRISILs Bank Loan Ratings - process, scale and default recognition
Rating Criteria for Chemical Industry
CRISILs Criteria for rating short term debt
Criteria for Notching up Stand Alone Ratings of Companies based on Parent Support

Media Relations	Analytical Contacts	Customer Service Helpdesk
Prakruti Jani Media Relations **CRISIL Limited** M: +91 98678 68976 B: +91 22 3342 3000 PRAKRUTI.JANI@crisil.com **Rutuja Gaikwad** Media Relations **CRISIL Limited** B: +91 22 3342 3000 **Rutuja.Gaikwad@ext-crisil.com**	Anuj Sethi Senior Director **CRISIL Ratings Limited** B:+91 44 6656 3100 anuj.sethi@crisil.com Poonam Upadhyay Director **CRISIL Ratings Limited** B:+91 22 3342 3000 poonam.upadhyay@crisil.com Sree Sankar Manager **CRISIL Ratings Limited** B:+91 44 6656 3100 Sree.Madhu@crisil.com	Timings: 10.00 am to 7.00 pm Toll free Number:1800 267 1301 For a copy of Rationales / Rating Reports: CRISILratingdesk@crisil.com For Analytical queries: ratingsinvestordesk@crisil.com

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