SANMAR

Chemplast Sanmar Limited

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1st March 2022

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

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 India Ratings and Research (Ind-Ra) has upgraded Chemplast Sanmar Limited's Long-Term Issuer Rating to 'IND A+' with Positive outlook. The instrument-wise rating actions are given below:

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term – Issuer Rating	IND A+/Positive	Upgraded
2	Short Term – Non-fund-based working capital facilities	IND A1+	Upgraded

This is for your information and records.

The letter dated 28th February 2022 received from India Ratings and Research Pvt. Ltd. is enclosed herewith.

Thanking You,

Yours faithfully,
For CHEMPLAST SANMAR LIMITED

CHEMPLAST SANMAR LIMITED CHENNAI 600 086

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

Responsible Care®
OUR COMMITMENT TO SUSTAINABILITY

India Ratings & Research
A Fitch Group Company

India Ratings Upgrades Chemplast Sanmar to ‘IND A+’/Positive; Limits Enhanced

28
FEB 2022

By Prateek Goyal

India Ratings and Research (Ind-Ra) has upgraded Chemplast Sanmar Ltd’s (CSL) Long-Term Issuer Rating to ‘IND A+’ from ‘IND A-’. The Outlook is Positive. The instrument-wise rating actions are given below:

Instrument Type	Date of issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating	Rating Action
Non-fund-based working capital facilities*	-	-	-	INR1,600 (increased from INR1,000)	IND A1+	Upgraded
Proposed non-fund-based working capital facilities	-	-	-	INR5,400 (increased from INR1,000)	IND A1+	Upgraded

* Includes INR500 million of fund-based limits as interchangeable limits/sub-limits of the non-fund-based facilities.

Analytical Approach: Ind-Ra continues to take a consolidated view of CSL and its wholly-owned subsidiary, Chemplast Cuddalore Vinyls Limited (CCVL). CSL has provided a corporate guarantee towards loans of INR1,076.63 million availed by CCVL as of FY21. Moreover, CCVL has a significant scale and profitability, making the business strategically important to CSL’s consolidated profile.

The upgrade and the Positive Outlook reflect a substantial improvement in CSL’s consolidated credit profile after the completion of the initial public offering (IPO) in August 2021, healthy profitability over FY21-9MFY22, backed by strong polyvinyl chloride (PVC) prices, and Ind-Ra’s expectation of an improvement in CSL’s business profile over the medium term. This will be on the back of a consolidation of its market leading position in the paste PVC business, where the company plans to enhance the capacity, and a strong performance in other business segments.

KEY RATING DRIVERS

Significant Improvement in Credit Profile Post-IPO: With the completion of the IPO, CSL’s consolidated net leverage on a trailing 12 months (TTM) basis improved to below 0.5x in 3QFY22 (FY21: 1.9x; FY20: 5.4x). In August 2021, CSL raised equity through an IPO, which consisted of a fresh issue of INR13,000 million and an offer for sale of INR25,500 million by the promoter group. With the net proceeds of the IPO, CSL prepaid its entire non-convertible debenture outstanding (INR12,385 million). Given the likely strong cash flows, Ind-Ra believes the company will maintain a healthy financial risk profile and could deleverage further over the medium-term while undertaking growth capex plan. The consolidated interest coverage was 3.0x in 9MFY22 (FY21: 2.2x; FY20: 1.9x), and Ind-Ra expects its coverage to improve to above 5.0x in FY23, on the back of a strong profitability, lower debt and strong operating cash flows, and is likely to remain healthy over the medium term.

Robust Operating Performance over FY21-9MFY22: On a consolidated basis, the revenue surged 66% yoy to INR40,850 million in 9MFY22 (FY21: INR37,987 million), supported by continued strong demand for PVC products and a sharp increase in realisations across product offerings. Ind-Ra expects increased sales volumes and record-high PVC prices to lead to 40%-50% yoy growth in its revenue in FY22. The agency also expects the sales volumes to grow steadily in the medium term, owing to the strong demand for PVC, caustic soda, hydrogen peroxide and chloromethane in the domestic market; although, the extent of the growth would depend upon the debottlenecking/capacity expansion. Ind-Ra expects the volume growth to be more than offset by the normalisation in PVC prices, leading to rangebound revenue in FY23-FY24.

CSL’s consolidated EBITDA increased to INR8,504 million on a yoy basis in 9MFY22 (9MFY21: INR6,176 million; FY21: INR9,615 million; FY20: INR4,004 million), on account of the healthy profitability and product margins in paste PVC, suspension PVC (SPVC) and other segments. As a result, the consolidated EBITDA margins remained strong at 20.8% in 9MFY22 (FY21: 25.3%). Ind-Ra expects the PVC-ethylene dichloride (EDC) and PVC-vinyl chloride monomer spreads to normalise but remain strong over the medium term, leading to continued strong operating cash flows in FY22 and 1HFY23. Ind-Ra expects the overall profitability to be supported by other segments with the consolidated EBITDA margins of about 20% in FY22.The margins are likely to remain between 16% and 18% over FY23-FY24.

On a standalone basis, the revenue grew 56% yoy to INR13,635 million during 9MFY22, despite the COVID-19-led disruptions during 1QFY22, while the EBITDA margins stood at 32% (9MFY21: 28.3%). CCVL’s standalone revenue grew 72% yoy to INR27,225 million in 9MFY22, owing to high demand and realisations for SPVC with EBITDA margins of 15.2% (9MFY21: 23.4%). However, CCVL’s margins remained volatile, due to the susceptibility to fluctuations in raw material prices, which are partly linked to crude oil prices.

Strong Business Profile; Balanced Mix of Specialty and Commodity Chemicals: CSL has an established position in the specialty paste PVC market, and is the largest producers of the same in India, having an installed capacity of 66 kilo tonnes per annum (ktpa). 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. Its specialty chemical business (paste PVC and custom manufacturing) contributed 24% to its consolidated sales for FY21. Meanwhile, CCVL is the second-largest manufacturer of suspension PVC resin in India and the largest manufacturer in south India (installed capacity of 300ktpa), contributing 66% to the consolidated sales in FY21. 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% weight concentration), together contributing around 10% to the FY21 sales.

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. About 45% of India's paste PVC demand and around 55% of SPVC demand is being met through imports. On the supply side, global capacity addition has been muted and adversely impacted by plant closures in China and Europe due to environmental concerns, benefitting domestic PVC manufacturers.

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 electrolysis of salt leads to the production of caustic soda, hydrogen and chlorine, which are used to produce downstream products. As of April 2021, CSL's salt field lease had expired and the company was in the process of renewing it. The company has its own marine terminal facility to import key raw materials such as ethylene. Ethylene and chlorine are used to manufacture EDC, which is ultimately used to produce paste PVC. Imported methanol and chlorine are used to manufacture chloromethanes. The hydrogen produced through the salt electrolysis would be used for producing hydrogen peroxide. 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 the 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 billion, has interests in chemicals, engineering services and shipping. Sanmar Engineering Services Ltd (a debt-free company post CSL's IPO) 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 SESL as of September 2021.

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. CSL's board comprises four independent members (total eight-member board).

Liquidity Indicator - Adequate: At end-September 2021, the consolidated cash and equivalents stood at INR5,849 million (FYE21: INR3,245 million), and had another INR5,100 million (INR877 million) in other bank balances primarily placed as margin deposits against letters of credit (LCs) to import raw materials. CSL is debt-free post the repayment of the non-convertible debentures with the IPO proceeds. CCVL has repayment obligations of around INR1,170 million for FY22 and FY23 each. Ind-Ra expects the company to meet its obligations via internal accruals. The company generated strong consolidated cash flow from operations of INR6,977 million in FY21 (FY20: negative INR626 million), owing to the strong profitability and efficient working capital management. Ind-Ra expects the free cash flow (FY21: INR6,423 million; FY20: negative 1,271 million) to remain positive over FY22-FY23, given the staggered capex plan and continued strong cash flows from operations. The debt service coverage ratio is likely to remain above 2.0x in FY23-FY24.

The management plans to incur a capex of around INR6,000 million to expand its production capacities in paste PVC and custom manufacturing over the next three-to-four fiscal years. The capex is likely to be funded through a mixture of debt and internal accruals in a phased manner.

CSL uses its non-fund-based facilities to import raw materials. The non-fund-based limit utilisation remains high (over 90%) for both CSL and CCVL. Both CSL and CCVL have applied for enhancements of non-fund-based limits which would support the liquidity profile. The long payable days lead to a negative net working capital cycle with average trade payables of over 150 days, primarily in CCVL. Also, CSL hedges its raw material imports to mitigate foreign exchange risk. On a standalone basis, CSL's average utilisation of the fund-based limits was minimal and that of the non-fund-based limits was 90% for the eight months ended December 2021.

Volatile Raw Material Prices; Forex Volatility: 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 to some extent 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 on the management's extensive experience in the chemical industry to manage the inherent price volatility in the PVC business.

CSL is 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.

RATING SENSITIVITIES

Negative: A deterioration in the operating performance and/or negative free cash flow generation, with the net leverage (adjusted for LC acceptances) exceeding 2.5x, on a sustained basis, will lead to the Outlook revision to Stable.

Positive: Continued strong and stable EBITDA margins, modest capex and stable working capital cycle and dividend policy leading to strong free cash flows, with the net leverage (adjusted for LC acceptances) remaining below 2.5x, on a sustained basis, will lead to an upgrade.

COMPANY PROFILE

CSL manufactures PVC, chloro-chemicals, 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.

PROFORMA CONSOLIDATED FINANCIAL SUMMARY

Particulars	9MFY22	FY21	FY20
Revenue (INR million)	40,850	37,987	31,228
EBITDA (INR million)	8,504	9,615	4,004
EBITDA margin (%)	20.8	25.3	12.8
Interest coverage (x)	3.0	2.2	1.9
Net leverage (excluding LC acceptances) (x)	n.a.	1.9	5.4
(Source: Ind-Ra; CSL)			

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Rating Watch/Outlook						
	Rating Type	Rated Limits (million)	Rating	16 June 2021	20 March 2020	3 June 2019	1 March 2019	6 April 2018	28 December 2016	18 May 2016
Issuer rating	Long-term	-	IND A+/Positive	IND A-/Stable	IND A-/Stable	IND A+/RWE	IND A+/Positive	IND A/Stable	IND A-/Stable	IND BBB+/Positive
Non-fund-based working capital facilities	Short-term	INR7,000	IND A1+	IND A1	IND A1	IND A1+/RWE	IND A1+	IND A1	IND A2+	IND A2+

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.

SOLICITATION DISCLOSURES

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Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies and project finance companies.

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