SANMAR

Chemplast Sanmar Limited

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CIN L24230TN1985PLC011637

April 13, 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

Dear Sirs,

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 upgraded the ratings 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 upgraded with a revision in outlook for the Bank Loan Facilities of Rs. 700.00 Crores

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	**CRISIL AA- / Stable**	Upgraded from CRISIL A+/Positive
2	Short Term - Bank Facilities (Non-Fund Based)	**CRISIL A1+**	Reaffirmed

2) **Chemplast Cuddalore Vinyls Limited**: Ratings upgraded with a revision in outlook for the Bank Loan Facilities of Rs. 2550.00 Crores

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	**CRISIL AA- / Stable**	Upgraded from CRISIL A+/Positive
2	Short Term - Bank Facilities (Non-Fund Based)	**CRISIL A1+**	Reaffirmed

CHEMPLAST SANMAR LIMITED
CHENNAI
600 086

This is for your information and records.

The letters dated 12th April 2022 received from CRISIL Ratings Ltd. are enclosed herewith.

Thanking You,

Yours faithfully,
For CHEMPLAST SANMAR LIMITED

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

CHEMPLAST SANMAR LIMITED
CHENNAI
600 086

Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

April 12, 2022 | Mumbai

Chemplast Sanmar Limited

Long-term rating upgraded to 'CRISIL AA-/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.700 Crore**
Long Term Rating	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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

Detailed Rationale

CRISIL Ratings has upgraded its long-term rating on the bank facilities of Chemplast Sanmar Limited (CSL) to '**CRISIL AA-/Stable**' from 'CRISIL A+/Positive' while reaffirming the short-term rating at 'CRISIL A1+'.

The rating action reflects better than expected performance in fiscal 2022 driven by healthy capacity utilization across facilities and strong realizations for poly vinyl chloride (PVC) products. CRISIL Ratings expects CSL's revenues to cross Rs 5000 crore in fiscal 2022 (Rs. 3800 crore in fiscal 2021) while healthy operating efficiencies is expected to keep operating margins stable at 18-20% (25% in fiscal 2021). 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 fiscals 2021 and 2022. On the domestic front also, demand rebounded from end user segments post lifting of the lockdown aiding PVC manufacturers including CSL.

CRISIL Ratings expects CSL to continue registering healthy revenue growth over the medium term, supported by steady demand for its products and balanced demand-supply situation. Its operating profitability is also expected to sustain at ~17-18% over the medium term, followed by better contribution from the custom manufactured chemicals (CS) business, which will partly buttress impact of higher input prices in the commodity PVC business.

CSL's financial risk profile is adequate and improving over time. The company raised Rs 3850 crore (fresh issuance: Rs 1300 crore; offer for sale (OFS) by promoter holding company: Rs 2550 crore) via an initial public offering (IPO), and used 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. CSL's entire long-term debt has been retired, while its subsidiary, Cuddalore Vinyl Ltd (CCVL) has long term debt of ~Rs.900 crore. The sharp reduction in debt and healthy profitability has vastly improved 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, interest cover and net cash accruals to total debt (NCATD) ratios are also likely to improve to over 4 times and 0.7 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 healthy annual profits, networth is expected to turn positive.

Driven by strong operating performance and lower interest outgo, annual accruals are expected to be over Rs 600 crore in fiscals 2022 and 2023. Accruals will be more than sufficient to meet repayment obligations and working capital requirements apart from capex needs. 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 CS segment, the same will be in a phased manner, and is expected to be funded through a prudent mix of accruals and debt. Besides, CSL is also focusing on improving 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.

The ratings continue to factor CSL's established market presence in the PVC segment (both paste and suspension segments, through CCVL), 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. 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.

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'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 resin business (~80% market share basis production capacity and ~45% considering imports) and second largest player in the suspension PVC business (~20% market share basis production capacity and ~10% considering imports). Revenues also benefit from diversity in product segments with ~65% of revenues derived from suspension PVC, ~20% from specialty paste PVC resin and balance ~15% from chemicals (chlor alkali and custom manufactured chemicals). In addition to Suspension PVC and speciality Paste PVC, 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.

Revenue visibility over the medium term will be driven by steady demand for both suspension and speciality 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, the margins are expected to remain healthy with the gradual reduction in input costs as well. 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 specialty 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 specialty 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.

The planned expansion in the specialty paste PVC resin segment is expected to further strengthen CSL's market position in the domestic sector. Also, capex in the CS 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, 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 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 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 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 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, 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, Vinyl Chloride Monomer (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 funded through a prudent mix of debt and 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 and interest cover to around 1 time and ~6 times respectively in fiscal 2023. 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 700 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.

Weakness:

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.

Liquidity: Strong

CSL's liquidity is strong marked by healthy accruals and unencumbered cash and cash equivalents (~Rs.850 crore at December 31, 2021 on a consolidated basis). 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 70 crore in 2023 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 75% on average over the 12 month period ended December, 2021.

Outlook: Stable

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:

- Strong revenue growth and sustenance of operating margins at ~18-20%, supported by better revenue diversity and increased contribution from CS segment, leading to higher than anticipated cash generation
- Sustained improvement in financial risk profile supported by prudent capex spend, and better working capital management reflecting in healthy debt metrics and debt/EBITDA stabilizing at below ~1-1.1 times

Downward Factors:

- Significant moderation in business performance with operating margins deteriorating to below 13-14%
- Significant increase in debt levels due to capex, acquisitions, or elongation of working capital cycle impacting key debt metrics and 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.

For the nine month period ended December 31, 2021, CSL reported a net profit of 417 crore on net sales of Rs. 4085 crore, compared with net profit of Rs. 46 crore on net sales of Rs. 2457 crore during corresponding period of previous fiscal.

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 net worth	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	70	NA	CRISIL AA-/Stable
NA	Letter of Credit$	NA	NA	NA	50	NA	CRISIL AA-/Stable
NA	Letter of Credit^	NA	NA	NA	60	NA	CRISIL AA-/Stable
NA	Letter of Credit&	NA	NA	NA	150	NA	CRISIL AA-/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	370	NA	CRISIL A1+

*Rs 50 crore sub limit for SBLC for Buyers Credit; Rs 1 cr sub limit of OD/CC; Rs 25 crore sublimit for WCDL and bank guarantee
$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
&Rs. 25 crore sub-limit of EPC/PCFC/CC/WCDL

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			2022 (History)		2021		2020		2019		Start of 2019
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 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
Letter of Credit$	50	Indian Overseas Bank	CRISIL AA-/Stable
Letter of Credit^	60	DBS Bank India Limited	CRISIL AA-/Stable
Letter of Credit*	70	CTBC Bank Co Limited	CRISIL AA-/Stable
Letter of Credit&	150	ICICI Bank Limited	CRISIL AA-/Stable
Proposed Non Fund based limits	370	Not Applicable	CRISIL A1+

This Annexure has been updated on 12-Apr-2022 in line with the lender-wise facility details as on 30-Sep-2021 received from the rated entity
*Rs 50 crore sub limit for SBLC for Buyers Credit; Rs 1 cr sub limit of OD/CC; Rs 25 crore sublimit for WCDL and bank guarantee
$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
&Rs. 25 crore sub-limit of EPC/PCFC/CC/WCDL

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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Note for Media:

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For more information, visit www.crisilratings.com

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Ratings
CRISIL Ratings Limited (A subsidiary of CRISIL Limited)

CRISIL
An S&P Global Company

Rating Rationale

April 12, 2022 | Mumbai

Chemplast Cuddalore Vinyls Limited

Long-term rating upgraded to 'CRISIL AA-/Stable'; short-term rating reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.2550 Crore**
Long Term Rating	**CRISIL AA-/Stable (Upgraded from 'CRISIL A+/Positive')**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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

Detailed Rationale

CRISIL Ratings has upgraded its long-term rating on the bank facilities of Chemplast Cuddalore Vinyls Limited (CCVL) to '**CRISIL AA-/Stable**' from 'CRISIL A+/Positive' while reaffirming its short-term rating at 'CRISIL A1+'.

The rating action follows similar action on CCVL's parent, Chemplast Sanmar Limited (CSL, rated CRISIL AA-/Stable/CRISIL A1+). The rating also reflects expectations of better than anticipated performance in fiscal 2022, driven by healthy capacity utilization and strong realizations, with revenues expected to cross Rs 3500 crore (Rs 2511 crore in fiscal 2021). Operating margins though are expected to moderate to ~15-16% in fiscal 2022, which is still healthy, from ~22% in fiscal 2021, due to sharp increase in crude linked raw material prices and other costs. 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 fiscals 2021 and 2022. On the domestic front also, demand rebounded from end user segments post lifting of the lockdown aiding PVC manufacturers like CCVL.

CRISIL Ratings expects CCVL to continue registering steady revenue growth over the medium term, supported by steady demand for its products and balanced demand-supply situation. Operating margins are also expected to be maintained at 14-15% over the medium term driven by company's ability to take timely price corrections.

Financial risk profile is improving since fiscal 2021, though net worth remains negative. CCVL's adjusted net worth has been negative since fiscal 2018 due to capital reserves created on account of demerger of the suspension PVC business from CSL in fiscal 2018. Additionally in fiscal 2021, CCVL redeemed cumulative convertible debentures (CCD's) of ~Rs 2450 crore raised from holding companies by utilizing fresh CCDs raised from CSL of Rs. 1,250 crore and redemption of investments in group companies amounting to Rs. 1,200 crores.

Improvement in operating performance leading to higher cash generation has benefitted key debt protection metrics like interest cover (expected to improve over 3.5 time in fiscal 2022 from under 1 time in fiscal 2020) and total debt/Earnings before interest, tax, depreciation and amortization (EBITDA) to under 1.5 times in fiscal 2022 from 10.78 times in fiscal 2020. Earlier, CCVL had also availed long term debt of ~Rs 825 crore from banks in fiscal 2020, proceeds of which went mainly to retire debt at the holding company, Sanmar Engineering Services Ltd. (SESL). This had resulted in moderation of debt metrics. However, higher cash generation, along with interest rate reduction received on long term loans in September 2021, and progressive debt reduction will lead to continued improvement in debt metrics over the medium term. With improving profits, net worth is also expected to turn positive over the medium term. Moreover, with only normal maintenance and de-bottlenecking capex of ~Rs 20-30 crore planned, accruals of over Rs 250 crore are expected to be sufficient to meet repayment obligations of Rs 69 crore (fiscal 2023), capex requirements and incremental working capital requirements.

The ratings continue to reflect CCVL's established market presence in the suspension PVC segment by virtue of being the second largest domestic player, long standing relationship with customers, 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. CCVL's financial risk profile is also improving, benefitting from healthy cash generating ability and moderate capital spending plans. These strengths are partially offset by the commoditized nature of products, which lends variability to CCVL's operating margins, and elongated credit period for key supplies. Moreover, high dependence on imports for key raw materials also exposes the company's performance to forex fluctuations. 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.

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 ~65% of revenues. Besides, there are strong operational and financial linkages.

CCVL revalued its assets in fiscal 2019, and created a revaluation reserve of Rs. 500 crore. The same has been adjusted against the 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.

Key Rating Drivers & Detailed Description

Strengths

Steady revenue growth, supported by significant market share and healthy demand prospects: CCVL is estimated to have registered a healthy double digit revenue growth in fiscal 2022 driven by strong realizations and stable demand for its products. Over the medium term also, demand is expected to remain steady and drive high capacity utilization translating to steady revenue growth over the medium term.

In the absence of any major capacity additions by peers, CCVL is expected to maintain its strong position in the domestic suspension PVC (~20% market share by installed capacity and ~10% considering imports). The ongoing debottlenecking expansion is expected to increase capacity by 10% and further strengthen CCVL's market position in the domestic sector, which is marked by high reliance on imports.

Revenue visibility over the medium term will be driven by steady demand for suspension PVC. While PVC realizations which have been witnessing historic highs are expected to moderate gradually over the medium term, the margins are expected to stay reaonably strong driven by reduction in inputs costs as well. 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. Imports contributed to 45-50% of domestic demand for suspension 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.

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 to over USD 500 million and is an established player in the domestic markets for its products. 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 Groups PVC/chemicals business on a consolidated basis has revenues of over USD 1 billion lending significant scale to the Group. This has also enabled the Group to attract investments from marque investors like Fairfax Group.

Strong parentage of CSL: During fiscal 2021, the promoters decided to consolidate the Indian chemical business under CSL and unlock value through an IPO. Consequently, CCVL was made a 100% subsidiary of CSL. Both the companies share strong business and financial linkages. CSL is currently a debt free company having a diversified revenue stream. It is the largest producer of speciality paste PVC resin in India and amongst the largest players in chlor alkali in South India. Healthy cash generation and debt free balance sheet of CSL provides additional comfort, as need based timely support in case of financial exigencies is expected to be forthcoming.

Improving financial risk profile: CCVL's financial risk profile is improving since fiscal 2021. This improvement is expected to be sustained by its healthy cash generating ability, moderate capex plans over the medium term and gradual debt reduction through progressive repayments.

Capex spend is expected to be low at Rs 20-30 crore annually over the medium term and will mostly be towards debottlenecking of existing capacities thereby restricting requriement of any additional debt. 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 net cash accruals to total debt (NCATD) to around 1.2 time, 4 time and 0.5 time respectively over the medium term from 1.57 time, 3.2 time and 0.35 time in fiscal 2021.

Earlier CCVL's balance sheet was used to raise debt of ~Rs 825 crore and partly prepay the loans raised by SESL, which impacted the debt protection metrics. However, factoring in improved operating performance and debt restructuring undertaken at TCIS (current long term debt of ~USD 740 million) and with CCVL now being a 100% subsidiary of CSL and CSL being listed, support from the domestic chemical companies (CSL and CCVL) is not envisaged. This will nevertheless remain a rating sensitive factor. Also, OFS proceeds from CSL's IPO 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 of profitability to fluctuations in PVC prices, and long credit period: Profitability of PVC manufacturing companies depends on the prevailing PVC prices. Cyclical downturns have resulted in variations in operating profitability in the past for these players. Import of PVC currently attracts an import duty of 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 Vinyl Chloride Monomer (VCM) 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 however, collection is quick as sales are almost on a cash and carry model. Inventory period is also low at 30-40 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 impacts profitability. The company is exploring initiatives to lower credit period to 180 days over the next 2 years. Also with healthy build up in liquidity, CCVL might optimize its LC utilization.

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

CCVL's liquidity is strong marked by healthy accruals and cash and cash equivalents of ~Rs. 500 crore as on December 31, 2021. CCVL is expected to maintain liquidity (unencumbered surpluses) at ~Rs. 300-350 crore over the near to medium term. Annual accruals of over Rs. 250 crores are expected to be sufficient to meet debt repayments of Rs 69 crore in fiscal 2023 apart from meeting modest capital spending requirement and incremental working capital needs. Company's fund based working capital limits are modest and sub-limits of non-fund based limits as the requirement is more for LCs for imports of raw material. Average LC utilization has been high at ~90% in the last 12 months ended February, 2022, due to steep increase in cost of key inputs.

The company has tied up additional non-fund-based limits from banks which has helped create additional buffer, given rising input prices. Further, with healthy liquidity, CCVL might also optimize its LC utilization.

Outlook: Stable

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, which will aid in increase in scale of operations and healthy operating efficiency. CCVL's financial risk profile is expected to improve further driven by strong operating performance leading to healthy accruals, which in turn will aid in gradual debt reduction, and improve 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 could result in similar rating action on CCVL
- Improvement in operating performance marked by sustained revenue growth of ~8-10%, while maintaining healthy double digit operating margins
- Sustained improvement in financial risk profile and debt metrics and debt/EBITDA at less than 1-1.1 time

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 with operating margins deteriorating to below 10-12% on sustained basis
- High debt levels due to capex or elongation of working capital cycle leading to deterioration in key debt metrics and debt/EBIDTA in excess of 2.5 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 300,000 tpa at Cuddalore, Tamil Nadu.

For the nine month period ended December 31, 2021, CCVL reported a net profit of Rs 186 crore on net sales of Rs. 2722 crore, compared with net profit of Rs. 146 crore on net sales of Rs. 1582 crore during corresponding period of previous fiscal.

About the Group

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, currently, on a standalone basis has installed capacities for manufacturing 66,000 tonne per annum (tpa) of specialty 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.

For the nine month period ended December 31, 2021, CSL reported a net profit of 417 crore on net sales of Rs. 4085 crore, compared with net profit of Rs. 46 crore on net sales of Rs. 2457 crore during corresponding period of previous fiscal.

Key Financial Indicators - CCVL

Particulars	Unit	2021	2020
Revenue	Rs.Crore	2511	1879
Profit After Tax (PAT)	Rs.Crore	286	(79)
PAT Margin	%	11.4	-4.2
Adjusted Debt/Adjusted networth	Times	-0.70	-2.56
Interest Coverage	Times	3.23	0.78

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. The CRISIL Ratings' complexity levels are available on www.crisil.com/complexity-levels. Users are advised to refer to the CRISIL Ratings' complexity levels for instruments that they consider for investment. 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	Term Loan	NA	NA	May-2030	790	NA	CRISIL AA-/Stable
NA	Letter of Credit*	NA	NA	NA	540	NA	CRISIL AA-/Stable
NA	Letter of Credit$	NA	NA	NA	225	NA	CRISIL AA-/Stable
NA	Letter of Credit#	NA	NA	NA	110	NA	CRISIL AA-/Stable
NA	Letter of Credit%	NA	NA	NA	225	NA	CRISIL AA-/Stable
NA	Letter of Credit	NA	NA	NA	145	NA	CRISIL AA-/Stable
NA	Letter of Credit	NA	NA	NA	200	NA	CRISIL AA-/Stable
NA	Cash Credit^	NA	NA	NA	5	NA	CRISIL AA-/Stable
NA	Letter of Credit**	NA	NA	NA	150	NA	CRISIL AA-/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	150	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	10	NA	CRISIL AA-/Stable

**Rs 540 crore sub limit for bank guarantee (BG)/standby letter of credit (SBLC) for Buyers Credit; Rs 15 crore sub limit of overdraft (OD)/cash credit (CC); Rs 5 crore sublimit for BG*
$Rs 150 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 30 crore sub limit of OD/CC
#Rs 15 crore sublimit for BG; Rs 5 crore sub limit for OD/CC
^Rs 5 crore WCDL as sublimit
%WCDL of Rs 70 crore and OD of Rs 28 crore as sublimit
***Rs 150 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sublimit for WCDL/CC*

Annexure - Rating History for last 3 Years

	Current			2022 (History)		2021		2020		2019		Start of 2019
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	805.0	CRISIL AA-/Stable		--	11-11-21	CRISIL A+/Positive		--		--	--
Non-Fund Based Facilities	ST/LT	1745.0	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^	**5**	**ICICI Bank Limited**	**CRISIL AA-/Stable**
Letter of Credit#	**110**	**Indian Overseas Bank**	**CRISIL AA-/Stable**
Letter of Credit*	**540**	**YES Bank Limited**	**CRISIL AA-/Stable**
Letter of Credit$	**225**	**IDFC FIRST Bank Limited**	**CRISIL AA-/Stable**
Letter of Credit%	**225**	**JP Morgan Chase Bank N.A.**	**CRISIL AA-/Stable**
Letter of Credit	**145**	**ICICI Bank Limited**	**CRISIL AA-/Stable**
Letter of Credit	**200**	**IndusInd Bank Limited**	**CRISIL AA-/Stable**
Letter of Credit**	**150**	**RBL Bank Limited**	**CRISIL AA-/Stable**
Proposed Long Term Bank Loan Facility	**10**	**Not Applicable**	**CRISIL AA-/Stable**
Proposed Non Fund based limits	**150**	**Not Applicable**	**CRISIL A1+**

Term Loan	520	IndusInd Bank Limited	CRISIL AA-/Stable
Term Loan	270	NIIF Infrastructure Finance Limited	CRISIL AA-/Stable

This Annexure has been updated on 12-Apr-2022 in line with the lender-wise facility details as on 11-Nov-2021 received from the rated entity.
**Rs 540 crore sub limit for bank guarantee (BG)/standby letter of credit (SBLC) for Buyers Credit; Rs 15 crore sub limit of overdraft (OD)/cash credit (CC); Rs 5 crore sublimit for BG*
$Rs 150 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sub limit of BG; Rs 30 crore sub limit of OD/CC
#Rs 15 crore sublimit for BG; Rs 5 crore sub limit for OD/CC
^Rs 5 crore WCDL as sublimit
%WCDL of Rs 70 crore and OD of Rs 28 crore as sublimit
***Rs 150 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sublimit for WCDL/CC*

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
The Rating Process
CRISILs Bank Loan Ratings
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
Understanding CRISILs Ratings and Rating Scales

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