SANMAR

Chemplast Sanmar Limited

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www.chemplastsanmar.com
CIN L24230TN1985PLC011637

January 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,

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 with outlook revised from "Stable" to "Negative" 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 with outlook revised from "Stable" to "Negative" and bank loan facilities enhanced from Rs. 1610 Cr to Rs. 1710 Cr.

    a. Rs. 785 Cr of Term loans for on-going Paste PVC and CMC expansion projects
    b. Rs. 925 Cr of Working Capital facilities

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	**CRISIL AA- / Negative**	Outlook revised from 'Stable' to 'Negative'; Rating Reaffirmed
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 with outlook revised from "Stable" to "Negative". The quantum of Bank loan facilities remain unaltered at Rs. 2550 Cr.

S. No.	Type / Facility	Present Rating	Remarks
1	Long Term - Bank Facilities (Fund Based)	**CRISIL AA- / Negative**	Outlook revised from 'Stable' to 'Negative'; Rating Reaffirmed
2	Short Term - Bank Facilities (Non-Fund Based)	**CRISIL A1+**	Reaffirmed

This is for your information and records.

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

Thanking You,

Yours faithfully,
For CHEMPLAST SANMAR LIMITED

RAMAN MAHADEVAN
Digitally signed by RAMAN MAHADEVAN
Date: 2024.01.03 14:56:13 +05'30'

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

Responsible Care
OUR COMMITMENT TO SUSTAINABILITY

Rating Rationale

January 02, 2024 | Mumbai

Chemplast Sanmar Limited

Rating outlook revised to 'Negative'; Ratings Reaffirmed; rated amount enhanced for Bank Debt

Rating Action

Total Bank Loan Facilities Rated	**Rs.1710 Crore (Enhanced from Rs.1610 Crore)**
Long Term Rating	**CRISIL AA-/Negative (Outlook revised from 'Stable'; Rating 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 revised its outlook on the long-term bank facilities of Chemplast Sanmar Limited (CSL) to **'Negative'** from 'Stable' and reaffirmed the rating at **'CRISIL AA-'**. The short term rating has been reaffirmed at 'CRISIL A1+'.

The revision in the outlook follows the higher than anticipated deterioration in revenues and absolute operating profits of CSL in the current fiscal, due to steep decline in realisations of suspension PVC (S-PVC) and paste PVC (80% of consolidated revenues), following heavy dumping by China. Besides, other business segments such as caustic soda, chloromethanes and customs manufacturing are also facing headwinds due to excess domestic supply, further adding to pressure on profitability for the second year in a row, operating profitability too will be significantly impacted at 2-3%, from 9.5% in fiscal 2023. This along with higher interest costs due to debt raised for capex will exacerbate pressure on net profits and cash accruals in fiscal 2024. That said, better PVC-VCM (Poly Vinyl Chloride-Vinyl Chloride Monomer) spreads, higher contribution from customs manufacturing business with expansion in capacity, is likely to help operating profitability recover to ~10-12% over the medium term, and will remain a monitorable.

CSL's financial risk profile remains adequate and supported by ~Rs 955 crore of unencumbered cash and cash equivalents as on September 30, 2023. This will help buttress impact of moderation in key debt metrics in fiscal 2024 owing to lower operating profitability, and higher capex debt. On the consolidated basis, total debt is expected to increase to Rs 1500-1600 crore at March 31, 2024, compared to Rs 1008 crore at March 31, 2022. due to debt raise for capex plans – including expansion of paste PVC capacity and customs manufacturing capacity. Interest cover and the ratio of net debt to earnings before interest, depreciation, tax and amortization (EBITDA) is expected to moderate to below 1 times and ~8 times, respectively, in fiscal 2024. Progressive debt repayment, and improved operating profitability of 12-13%, due to stabilization in PVC prices and spreads and higher contribution from custom manufacturing segment as well as additional PVC capacity, are expected to result in interest cover and net debt/EBITDA recovering to above 2-3 times and below 2 times over the medium term. The same though will be a key monitorable.

The ratings continue to factor CSL's established market presence in the PVC segment (both paste, and suspension 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 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 suspension PVC business (~20% market share basis production capacity and ~10% considering imports). Revenues also benefit from diversity in product segments with ~60-65% of revenues derived from suspension PVC, 15-20% from specialty paste PVC and balance ~20% from other specialty chemicals (chlor alkali and custom manufactured chemicals). In addition to Suspension PVC and specialty Paste PVC, CSL also manufactures caustic soda (10% of revenues) chloro-methanes, refrigerant gases and hydrogen peroxide. Besides, 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.

  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 to decline in fiscal 2024, as explained earlier, but are expected 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.

  The 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 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 is expected to be modest at 2-3% in fiscal 2024 due to lower PVC realizations are expected to improve to 8-10% 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 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 successful IPO of CSL wherein it raised Rs 3850 crore in August 2021.

Weaknesses:

- **Adequate though moderating financial risk profile:** Financial risk profile of the company is adequate, though it is expected to moderate in the near term due to addition of long term debt and modest profitability. Total debt is expected to increase to above Rs 1500 crore in fiscal 2024 compared to Rs 1000 crore in fiscal 2023. Though financial risk profile will continue to be supported by large unencumbered cash reserves of ~Rs 955 crore as on September 30, 2023. Interest coverage is expected to moderate to 1 times in fiscal 2024 (3.46 times in fiscal 2023) due to lower operating profits and higher interest cost before recovering to above 2.5 times in the medium term with improvement in operating profitability.

  CSL is incurring capex of Rs 360 crore towards expanding its paste PVC capacity by 41,000 MT per annum, and Rs.680 crore for enhancing customs manufacturing capacity. The expanded paste PVC capacity is expected to be available from the fourth quarter of fiscal 2024. Phase-I of the custom manufacturing project has been already completed and the final phase is expected to be completed by the end of fiscal 2024. These projects will be funded by debt of ~Rs.800 crore, and balance from accruals/liquid surpluses. Due to lower profitability and higher debt, net-debt/EBITDA ratio is expected to be above 8 times in fiscal 2024 before stabilizing at below 2 times in the medium term with improved operating profitability.

- **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 slowly 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 with cash and cash equivalents of ~Rs 955 crores at September 30, 2023, and CRISIL Ratings expects CSL will maintain surpluses of atleast Rs. Rs 800 crore in the medium term. The planned capex of Rs 1100 crore for capacity expansion is being implemented, taking on debt of ~Rs 800 crore. Debt raised is expected to have moratorium of 12 months from the date of completion of the project. Cash accruals are expected to modest and annual debt repayment of Rs 79 crore is to be made largely through the large cash reserves of the company in fiscal 2024. Cash accruals thereafter will be higher and along with surpluses suffice to meet annual debt repayment of Rs 160-180 crore till fiscal 2026. Company does not have any large capex plans in fiscal 2025 and 2026 except for the maintenance capex which will be implemented through the internal accruals.

Outlook: Negative
CRISIL Ratings expects CSL's business profile will recover in the medium term from the recent slump with stabilizing PVC price and higher volume of higher margin paste PVC and custom manufacturing chemicals in the overall product mix. This will also lead to better operating profitability and cash generation, which along with prudent capex spend, lead to improvement in key debt protection metrics.. 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 customer manufacturing segment, 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 of 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 TCI Sanmar Chemicals S.A.E (TCIS, rated 'CRISIL BBB-/Stable/CRISIL A3').
- 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 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, 2023, CSL reported a net loss of Rs 38 crore on net sales of Rs. 1984 crore, compared with net profit of Rs. 80 crore on net sales of Rs. 2605 crore during corresponding period of previous fiscal.

Key Financial Indicators*

Particulars	Unit	2023	2022
Revenue	Rs.Crore	4942	5893
Profit After Tax (PAT)	Rs.Crore	181	701
PAT Margin	%	3.7	11.9
Adjusted Debt/Adjusted net worth	Times	3.33	8.2
Interest Coverage	Times	3.46	3.89

**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 the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	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	Mar-30	160	NA	CRISIL AA-/Negative
NA	Term Loan*	NA	NA	Sep-30	100	NA	CRISIL AA-/Negative
NA	Term Loan^	NA	NA	Sep-30	250	NA	CRISIL AA-/Negative
NA	Term Loan$	NA	NA	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		--	05-04-23	CRISIL AA-/Stable		--		--	--
Non-Fund Based Facilities	ST/LT	903.0	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&	**1**	**CTBC Bank Co Limited**	**CRISIL AA-/Negative**
Cash Credit^	**1**	**IDBI Bank Limited**	**CRISIL AA-/Negative**
Cash Credit%	**20**	**State Bank of India**	**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&	**100**	**CTBC Bank Co 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[<]	100	YES Bank Limited	CRISIL AA-/Negative
Term Loan[$]	250	ICICI Bank Limited	CRISIL AA-/Negative
Term Loan[!]	160	IndusInd Bank Limited	CRISIL AA-/Negative
Term Loan[%]	275	State Bank of India	CRISIL AA-/Negative

& - 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 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 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

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Rating Rationale

January 02, 2024 | Mumbai

Chemplast Cuddalore Vinyls Limited

Rating outlook revised to 'Negative'; Rating Reaffirmed

Rating Action

Total Bank Loan Facilities Rated	**Rs.2550 Crore**
Long Term Rating	**CRISIL AA-/Negative (Outlook revised from 'Stable'; Rating 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 revised its outlook on the long-term bank facilities of Chemplast Cuddalore Vinyls Limited (CCVL) to **'Negative'** from 'Stable' and reaffirmed the rating at **'CRISIL AA-'**. The short term rating has been reaffirmed at 'CRISIL A1+'.

The rating action follows revision in the outlook of CCVL's parent, Chemplast Sanmar Ltd (CSL), whose ratings have been revised to 'CRISIL AA-/Negative/CRISIL A1+' from 'CRISIL AA-/Stable/CRISIL A1+').

The revision also factors continuing 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, was after a strong performance witnessed during fiscal 2022 driven by all-time high S-PVC realizations and the spread between S-PVC and VCM (Vinyl chloride monomer) reaching over Rs 25,000 per ton. Since the first quarter of fiscal 2023, dumping of S-PVC from China rose sharply due to excess inventory amid subdued local Chinese demand impacting domestic S-PVC prices. For the record, S-PVC prices have declined by ~49% between April 2022-September 2023. 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 has impacted revenues and profitability of CCVL. That said, volume growth continued to be steady at 8% in fiscal 2023, and ~10% in the first half of fiscal 2024.

Operating profitability is expected to moderate to ~3% in fiscal 2024 (5.4% in fiscal 2023, and 14.7% in fiscal 2022) due to narrowing S-PVC and VCM spreads which has resulted in earnings before interest, tax, depreciation and amortization (EBITDA) per ton declining sharply to ~Rs. 2000-2100 per ton from ~5,000 per ton in fiscal 2023 (over Rs.19,000 per ton in fiscal 2022). However, with stabilizing S-PVC prices and spreads, operating margins are expected to improve to 6-8% in the medium term.

Financial risk profile is expected to moderate with interest coverage expected to decline to below 1 times in fiscal 2024 before improving gradually over the medium term in line with better profitability, and stable debt levels, with capex spend expected to be modest. Net Debt / EBITDA is expected to increase to above 4 times in fiscal 2024, from 0.84 times in fiscal 2023, and then further correct to below 2.5 times over the medium term. The improvement in key debt metrics will remain a monitorable. Healthy cash reserves (~Rs.490 crores at September 30, 2023) will continue to support CCVL's financial risk profile. Annual cash generation in fiscals 2024 and 2025 may not suffice to entirely meet long term debt obligations of Rs 76-140 crore, necessitating dipping into the cash surpluses.

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 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 moderating 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.

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 crore. 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 2nd 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 revenue is expected to decline in fiscal 2024, volumes will continue to remain stable and utilization is expected to remain high at above 90% in the medium term. Total Indian consumption of PVC is expected to be at 3.5-4.0 MMT in 2024 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. Import is expected to continue to serve ~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, which have been witnessing pressure since April 2023 due to excess supply of cheaper PVC from China, is expected to gradually improve in the medium term with gradual recovery in the Chinese economy.

- **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 Rs 3000 crore in topline 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 Group's 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.

- **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:

- **Moderating financial risk profile:** Financial risk profile of the company is expected to moderate in the near term due to lower operating profitability even though no additional debt is expected to be added. Interest coverage ratio which declined to 1.54 times in fiscal 2023 compared to 3.19 times in fiscal 2022 is expected to further moderate to below 1 time in fiscal 2024, and then gradually improve in line with better profitability. Net Debt/EBITDA is expected at over 4 times in fiscal 2024, compared with 0.84 times in fiscal 2023 (0.19 times in fiscal 2022), and is expected to correct to below 2.5 times in fiscal 2025. 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 491 crore as on September 30, 2023. The company has only moderate capex plans of Rs 12-15 crore per annum and annual debt repayment of Rs 76-140 crore in fiscals 2024 and 2025. However due to lower than expected profitability, cash accruals are expected to be modest and annual debt repayment and the capex will be partly supported by healthy cash reserves. Company also does not have any fund based working capital debt utilization in the past 10 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 ~80% in the past 10 months. CCVL has stable collection of Rs 220-250 crore per month which is sufficient for monthly 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 expected to improve gradually driven by better cash generation and along with progressive debt reduction, benefitting 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
- 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, 2023, CCVL reported a net loss of Rs 24 crore on net sales of Rs. 1283 crore, compared with net loss of Rs. 1 crore on net sales of Rs. 1466 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 initial public offering (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 custom manufactured chemicals across 3 locations in Tamil Nadu.

For the six month period ended September 30, 2023, CSL reported a net loss of Rs 38 crore on net sales of Rs. 1984 crore, compared with net profit of Rs. 80 crore on net sales of Rs. 2605 crore during corresponding period of previous fiscal.

Key Financial Indicators*

Particulars	Unit	2023	2022
Revenue	Rs.Crore	3000	3883
Profit After Tax (PAT)	Rs.Crore	11	288
PAT Margin	%	0.4	7.4
Adjusted Debt/Adjusted net worth	Times	NM	NM
Interest Coverage	Times	1.54	3.19

**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 the instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue size (Rs. Crore)	Complexity Level	Rating assigned with outlook
NA	Term Loan	NA	NA	May-30	494	NA	CRISIL AA-/Negative
NA	Term Loan	NA	NA	Nov-26	139	NA	CRISIL AA-/Negative
NA	Term Loan	NA	NA	May-30	95	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	5	NA	CRISIL AA-/Negative
NA	Letter of Credit[#]	NA	NA	NA	225	NA	CRISIL AA-/Negative
NA	Letter of Credit[!]	NA	NA	NA	145	NA	CRISIL AA-/Negative

NA	Letter of Credit	NA	NA	NA	200	NA	CRISIL AA-/Negative
NA	Letter of Credit~	NA	NA	NA	150	NA	CRISIL AA-/Negative
NA	Cash Credit!	NA	NA	NA	5	NA	CRISIL AA-/Negative
NA	Letter of Credit	NA	NA	NA	150	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	Proposed Non Fund based limits	NA	NA	NA	125	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	72	NA	CRISIL AA-/Negative

^ - Rs 1 crore sub limit of overdraft (OD)/cash credit (CC); Rs 20 crore sublimit for BG; Rs 5 crore sublimit for WCDL
% - Rs 50 crore sublimit for BG; Rs 10 crore sub limit for OD/CC
$ - Rs 450 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 15 crore sub limit of WCDL; 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 5 crore WCDL as sublimit
~ - Rs 150 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sublimit for WCDL/CC
< - Rs 15 crore sublimit for BG; Rs 5 crore sub limit for OD/CC

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	805.0	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	1745.0	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&	**5**	**ICICI Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit&	**145**	**ICICI Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit%	**150**	**RBL Bank Limited**	**CRISIL AA-/Negative**
Letter of Credit	**200**	**IndusInd 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**
Letter of Credit	**5**	**JP Morgan Chase Bank N.A.**	**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~	**140**	**IDBI Bank Limited**	**CRISIL AA-/Negative**
Proposed Long Term Bank Loan Facility	**72**	**Not Applicable**	**CRISIL AA-/Negative**
Proposed Non Fund based limits	**125**	**Not Applicable**	**CRISIL A1+**
Term Loan	**494**	**IndusInd Bank Limited**	**CRISIL AA-/Negative**
Term Loan	**234**	**NIIF Infrastructure Finance Limited**	**CRISIL AA-/Negative**

& - Rs 5 crore WCDL as sublimit
% - Rs 150 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sublimit for WCDL/CC
$ - Rs 15 crore sublimit for BG; Rs 5 crore sub limit for OD/CC
 # - Rs 450 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 15 crore sub limit of WCDL; 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 1 crore sub limit of overdraft (OD)/cash credit (CC); Rs 20 crore sublimit for BG; Rs 5 crore sublimit for WCDL
~ - Rs 50 crore sublimit for BG; Rs 10 crore sub limit for OD/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]()
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