SANMAR

Chemplast Sanmar Limited

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Tel + 91 44 2812 8500
E-mail: csl@sanmargroup.com
www.chemplastsanmar.com
CIN L24230TN1985PLC011637

April 6, 2023

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 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 bank loan facilities enhanced from Rs. 700 Cr to Rs. 1610 Cr
    a. Rs. 810 Cr of Term loans for on-going Paste PVC and CMC expansion projects
    b. Rs. 800 Cr of Working Capital facilities

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

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2) **Chemplast Cuddalore Vinyls Limited**: Ratings have been re-affirmed. 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- / Stable**	Re-affirmed
2	Short Term - Bank Facilities (Non-Fund Based)	**CRISIL A1+**	Reaffirmed

This is for your information and records.

The rating rationale dated 5th April 2023 published by CRISIL Ratings Ltd. are enclosed herewith.

Thanking You,

Yours faithfully,
For CHEMPLAST SANMAR LIMITED

RAMAN MAHADEVAN

Digitally signed by RAMAN MAHADEVAN
Date: 2023.04.06 14:15:40 +05'30'

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

Responsible Care
OUR COMMITMENT TO SUSTAINABILITY

CRISIL Ratings

Rating Rationale

April 05, 2023 | Mumbai

Chemplast Sanmar Limited

Rated amount enhanced

Rating Action

Total Bank Loan Facilities Rated	**Rs.1610 Crore (Enhanced from Rs.700 Crore)**
Long Term Rating	**CRISIL AA-/Stable (Reaffirmed)**
Short Term Rating	**CRISIL A1+ (Reaffirmed)**

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

Detailed Rationale

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

The rating factors CRISIL Ratings expectations that CSL's operating performance will witness steady recovery from fiscal 2024, supported by better realizations of suspension PVC (S-PVC) and paste PVC (~80% of consolidated revenues) and healthy prospects for PVC products. CRISIL Ratings also expects the custom manufacturing (CMC) and other chemicals businesses of CSL (caustic soda, chloromethanes and hydrogen peroxide) to continue to perform well amid stable demand and growing realization. These businesses have helped the company to diversify their business offerings and have supported the bottom line of the company at the times of extreme fluctuations in PVC prices.

Domestic demand of PVC is expected to continue to be healthy due to strong demand from the construction sector, including residential segment and irrigation projects. More than 70% of the domestic demand for S-PVC is from pipe and fitting businesses which in turn is dependent on the domestic irrigation/ water conveyancing/ construction activity. The demand for S-PVC from the profiles segment is also growing in India. Domestic demand for S-PVC is expected to reach ~3.3 mn MT in fiscal 2023 and is expected to grow at 8-9% CAGR through fiscal 2025. The Indian domestic S-PVC capacity is only ~1.5 mn MT, with over 50% of demand being catered by imports majorly from China, Japan, Korea and Taiwan.

CSL is the second largest producer of PVC in India only behind Reliance Industries Limited, with annual S-PVC capacity of 331,000 MT (increased by 31000 MT in fiscal 2023) and largest producer of paste PVC with an annual capacity of 66,000 MT. The company is expanding its paste PVC capacity by 41,000 MT and the same is expected to be added by October-December 2023 quarter. Due to pent up demand for PVC in the domestic market and higher prices of PVC due to restricted supply from China, consolidated revenue of the company grew by 55% in fiscal 2022. The PVC segment contributed towards more than 80% of the consolidated revenue of the company. Realizations in the other specialty chemical business of the company also grew at a healthy rate. However, due to strict covid lock down in China and zero COVID policy in the first half of fiscal 2023, dumping from China increased into the Indian market, impacting domestic PVC realizations until November 2022. Paste PVC prices which had higher realization and profitability also dropped 42% during the period. However, lifting of Covid related restrictions in China and recovery in Chinese consumption of PVC products, from mid-November 2022, led to a gradual recovery in domestic PVC prices, both S-PVC and paste PVC. While there are some temporary pressures on PVC prices now, these are expected to recover and improve gradually over fiscal 2024 as well.

CSL's revenue is expected to decline by 15-17% in fiscal 2023 due to lower PVC realisations, relative to fiscal 2022, despite continued volume growth. Realization from the other specialty chemical businesses of the company (caustic soda, chloromethane, Hydrogen peroxide and custom manufacturing) is expected to be stable. With PVC prices recovering, revenue is expected to grow steadily by 10-15% in the medium term driven by higher PVC prices and additional paste PVC and custom manufacturing capacity becoming available from fiscal 2024. Operating profitability expected to moderate to 9%-11% in fiscal 2023 from 20% in fiscal 2022 due to lower realization in PVC, and then improve to 14-15% in the medium term, supported by better share of higher margin paste PVC and custom manufacturing revenues.

CSL's financial risk profile remains adequate and supported by more than Rs 1100 crore of unencumbered cash and cash equivalents as on December 31, 2022. Interest coverage is expected at 3.75x in fiscal 2023 compared to 3.89x in fiscal 2022. The company has announced capex of ~Rs 1100 crore to be done in phases over fiscal 2023 and fiscal 2024 towards expansion of capacity in paste PVC and custom manufacturing. The capex is expected to be implemented with debt of Rs 810 crore which is to be disbursed in phases, and balance from accruals. The ratio of debt/EBITDA is expected at 2.2-2.4 times in fiscal 2023, and improve to below 2 times over the medium term, supported by improved operating profits.

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, benefitting from healthy cash generating ability. These strengths are partially offset by part commoditized nature of products (S-PVC) 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. However, 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:
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 ~60% of revenues derived from suspension PVC, ~20% from specialty paste PVC resin and balance ~20% from other chemicals (chlor alkali and custom manufacturing). In addition to Suspension PVC and speciality Paste PVC, CSL also manufactures caustic soda (5% 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 specialty paste PVC resin and CS businesses, while contribution from the chlor alkali segment is expected to remain stable. PVC realizations dipped in in fiscal 2023, as explained earlier, but are recovering gradually, and are expected to remain stable/witness slight improvement over the medium term. Operating margins are expected to be lower at 9-11% in fiscal 2023 due to lower PVC realizations and increase in power and fuel costs, and improve to 14-15% in the medium term with increase in price of PVC and stable realization from the specialty chemical businesses. Demand will continue to benefit from the large demand supply mismatch in India and market leadership position in the domestic markets.

Demand for S-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 over 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 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 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 higher operating margins than peers.

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.

Adequate financial risk profile: Financial risk profile of the company remained stable and is well supported by large unencumbered cash reserves of ~ Rs 1100 crore. Interest coverage ratio improved to 3.89x in fiscal 2022 due to higher operating profits; same is expected to moderate to ~3.75 times in fiscal 2023. CSL does not have any significant fund based working capital debt as it gets a long credit period for key supplies of inputs. Interest coverage ratio is expected to

remain above 3x in the medium term even though the company is planning to add long term debt in phased manner between fiscals 2023-2025.
CSL is incurring capex of Rs 360 crore towards expanding their paste PVC capacity by 41,000 MT per annum, and Rs.680 crore for enhancing customs manufacturing capacity. These projects will be funded by debt of Rs.810 crore, and balance from accruals/liquid surpluses. Debt/EBITDA ratio is expected to be ~2.4x in fiscal 2023 due to increase in debt for the projects and lower operating profits, and then recover to below 2x in the medium term, despite additional capex related debt, owing to better operating profits.

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 7.5% 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 has lent 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 2022 and fiscal 2023. 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
Liquidity expected to remain strong with cash and cash equivalents of ~Rs 1100 crores at December 31, 2022, and with cash accruals expected to improve over the medium term. The planned capex of Rs 1100 crore for capacity expansion is to be implemented by debt of ~Rs 810 cr and balance from accruals. Debt raised is expected to have moratorium of 18 months from the date of disbursement. Expected net cash accruals of Rs 233 crore is expected to be sufficient for debt repayment of Rs 69 crore in fiscal 2023 and part financing of the planned capex. Cash accruals of over Rs.400-500 crore from fiscal 2024 is expected to be sufficient for annual debt repayment of Rs 70-80 crore, and part funding of capex. CSL is expected to maintain around Rs.800-1000 crore of cash on sustained basis, for any future exigency.

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 remain adequate driven by improving accruals, prudent and well phased out capital spend, and good 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 above ~18-20%, supported by better revenue diversity and increased contribution from customer manufacturing segment, leading to higher than anticipated cash generation
- Sustained improvement in financial risk profile supported by prudent capex spending, and better working capital management reflecting in healthy debt metrics and debt/EBITDA stabilizing at below ~1x times

Downward Factors:
- Significant moderation in business performance with operating margins sustaining below 9-11%, also impacting cash generation
- 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 331,000 tpa at Cuddalore.

For the nine month period ended December 31, 2022, CSL reported a net profit of Rs106 crore on net sales of Rs. 3794 crore, compared with net profit of Rs. 417 crore on net sales of Rs. 4085 crore during corresponding period of previous fiscal.

Key Financial Indicators*

Particulars	Unit	2022	2021
Revenue	Rs.Crore	5893	3,800
Profit After Tax (PAT)	Rs.Crore	701	455

PAT Margin	**%**	**11.9**	**12.0**
Adjusted Debt/Adjusted networth	**Times**	**8.2**	**(1.13)**
Interest Coverage	**Times**	**3.89**	**2.16**

**CRISIL Ratings Adjusted*

Any other information: Not applicable

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

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

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

Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity levels	Rating Assigned with Outlook
NA	Letter of Credit*	NA	NA	NA	70	NA	CRISIL AA-/Stable
NA	Letter of Credit$	NA	NA	NA	50	NA	CRISIL AA-/Stable
NA	Letter of Credit^	NA	NA	NA	110	NA	CRISIL AA-/Stable
NA	Letter of Credit&	NA	NA	NA	150	NA	CRISIL AA-/Stable
NA	Letter of Credit@	NA	NA	NA	130	NA	CRISIL AA-/Stable
NA	Letter of Credit#	NA	NA	NA	100	NA	CRISIL AA-/Stable
NA	Letter of Credit%	NA	NA	NA	100	NA	CRISIL AA-/Stable
NA	Letter of Credit**	NA	NA	NA	45	NA	CRISIL AA-/Stable
NA	Cash Credit@	NA	NA	NA	20	NA	CRISIL AA-/Stable
NA	Cash Credit	NA	NA	NA	1	NA	CRISIL AA-/Stable
NA	Term Loan#	NA	NA	Mar-2030	160	NA	CRISIL AA-/Stable
NA	Term Loan%	NA	NA	Sep-2030	100	NA	CRISIL AA-/Stable
NA	Term Loan&	NA	NA	Sep-2030	250	NA	CRISIL AA-/Stable
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	300	NA	CRISIL AA-/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	24	NA	CRISIL A1+

@Rs 100 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sub limit of Bank Guarantee; Rs 50 crore sub limit of Capex LC; Rs. 20 crore OD/CC limit is fully interchangeable with LC limits
***Rs 30 crore sub limit for Bank Guarantee*
#Rs 30 crore sublimit for EPC/PCFC/CC/WCDL; Rs 60 crore Capex LC limit is sub-limit of term loan
%Rs 100 crore sub limit for BG/SBLC for Buyers Credit; Rs 10 crore sub limit of Bank Guarantee/WCDL/CC; Rs. 100 crore Capex LC & FBG / SBLC for availing Buyers' credit are sub-limit of term loan
$Rs 50 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sub limit of Bank Guarantee; 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. 50 crore sublimit for Capex LC
**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. 25 crore sub-limit of EPC/PCFC/CC/WCDL; Rs. 80 crore Capex LC as sublimit of term loan.

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			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	831.0	CRISIL AA-/Stable		--		--		--		--	--

Non-Fund Based Facilities	ST/LT	779.0	CRISIL A1+ / CRISIL AA-/Stable		--	12-04-22	CRISIL A1+ / CRISIL AA-/Stable	30-09-21	CRISIL A1+ / CRISIL A+/Positive		--	--

All amounts are in Rs.Cr.

Annexure - Details of Bank Lenders & Facilities

Facility	Amount (Rs.Crore)	Name of Lender	Rating
Cash Credit@	20	State Bank of India	CRISIL AA-/Stable
Cash Credit	1	IDBI Bank Limited	CRISIL AA-/Stable
Letter of Credit@	10	State Bank of India	CRISIL AA-/Stable
Letter of Credit**	45	IDBI Bank Limited	CRISIL AA-/Stable
Letter of Credit#	100	IndusInd Bank Limited	CRISIL AA-/Stable
Letter of Credit%	100	YES Bank Limited	CRISIL AA-/Stable
Letter of Credit@	120	State Bank of India	CRISIL AA-/Stable
Letter of Credit$	50	Indian Overseas Bank	CRISIL AA-/Stable
Letter of Credit^	110	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 Long Term Bank Loan Facility	300	Not Applicable	CRISIL AA-/Stable
Proposed Non Fund based limits	24	Not Applicable	CRISIL A1+
Term Loan#	160	IndusInd Bank Limited	CRISIL AA-/Stable
Term Loan%	100	YES Bank Limited	CRISIL AA-/Stable
Term Loan&	250	ICICI Bank Limited	CRISIL AA-/Stable

This Annexure has been updated on 05-Apr-2023 in line with the lender-wise facility details as on 30-Sep-2021 received from the rated entity
@Rs 100 crore sub limit for SBLC for Buyers Credit; Rs 20 crore sub limit of Bank Guarantee; Rs 50 crore sub limit of Capex LC; Rs. 20 crore OD/CC limit is fully interchangeable with LC limits
***Rs 30 crore sub limit for Bank Guarantee*
#Rs 30 crore sublimit for EPC/PCFC/CC/WCDL; Rs 60 crore Capex LC limit is sub-limit of term loan
%Rs 100 crore sub limit for BG/SBLC for Buyers Credit; Rs 10 crore sub limit of Bank Guarantee/WCDL/CC; Rs. 100 crore Capex LC & FBG / SBLC for availing Buyers' credit are sub-limit of term loan
$Rs 50 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sub limit of Bank Guarantee; 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. 50 crore sublimit for Capex LC
**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. 25 crore sub-limit of EPC/PCFC/CC/WCDL; Rs. 80 crore Capex LC as sublimit of term loan

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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About CRISIL Ratings Limited (A subsidiary of CRISIL Limited, an S&P Global Company)

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For more information, visit www.crisilratings.com

About CRISIL Limited

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It is India's foremost provider of ratings, data, research, analytics and solutions with a strong track record of growth, culture of innovation, and global footprint.

It has delivered independent opinions, actionable insights, and efficient solutions to over 100,000 customers through businesses that operate from India, the US, the UK, Argentina, Poland, China, Hong Kong and Singapore.

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Rating Rationale

April 05, 2023 | Mumbai

Chemplast Cuddalore Vinyls Limited

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

Rating Action

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

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

Detailed Rationale

CRISIL Ratings has reaffirmed its ratings on the bank facilities of Chemplast Cuddalore Vinyls Limited (CCVL) at '**CRISIL AA-/Stable/CRISIL A1+'**. The ratings continue to factor support from CCVL's parent, Chemplast Sanmar Ltd (CSL, rated 'CRISIL AA-/Stable/CRISIL A1+').

The rating factors anticipated improvement in the operating performance of CCVL over the medium term after a difficult year in fiscal 2023, where the prices of suspension PVC had declined by more than 45% due to excessive dumping from China during the first eight months of the fiscal. Earlier, CCVL's operating performance improved in fiscal 2022 with revenue registering growth of over 55% on year, crossing Rs.3800 crore, buoyed by strong demand for PVC and higher realizations.

The moderation in the operating performance during fiscal 2023 is due to implementation of strict lock down, on account of Zero covid policy, specifically in south and eastern China which brought down the construction activity to a halt, resulting in decline of local demand. However the production continued from north and western regions of China, which were not impacted by Zero covid policy resulting in oversupply. This has led the Chinese manufactures dumping the excess PVC into global markets, including India, which resulted in prices crashing by more than 45% between April and November 2022. The drop in prices significantly impacted CCVL's realizations and as a result, despite volume growth of 14% during 9M of fiscal 2023, the revenues declined by over 16%. Further there was a lag in the correction of Vinyl Chloride Monomer (VCM) prices compared to PVC prices, which along with higher power costs and inventory losses (Rs.31 crore), resulted in operating margins declining from 16% in 9M fiscal 2022 to 5.5% in 9M fiscal 2023.

The domestic demand for PVC remained robust as irrigation / water conveyancing / construction activity which consumes more than 70% of the domestic PVC kept growing post lifting of COVID restriction. The demand for S-PVC from the profiles segment is also growing in India. By the end of November 2022, the COVID restriction in China was lifted and the domestic construction activity resumed in China and demand for PVC rebounded. This resulted in revival of PVC prices which increased by more than 20% from December 2022 till February 2023.

CCVL also added additional S-PVC capacity of 31,000 MTPA capacity during June 2022, through debottlenecking, which has resulted in total PVC capacity of 331,000 MTPA. Sales volumes are expected to grow by 7% in fiscal 2023 on account of capacity addition and strong demand for PVC in the domestic market. Due to lower realization, revenue is expected to decline by 21% in fiscal 2023. Revenue expected to grow by 5%-10% in the medium term with steady increase in realization. Operating margin expected to decline to 5-5.5% in fiscal 2023 (with EBITDA per ton under Rs.5000 per ton, compared to Rs.19000-21000 per ton in past 2 fiscals), due to lower realization of PVC, and then stabilize at 10-11% over the medium term (with EBITDA per ton of 10000-11000 per ton), due to better PVC prices, and spreads.

Debt protection metrics are expected to moderate due to lower operating profits; interest coverage ratio and Debt/EBITDA are expected at ~1.59x and over 5x in fiscal 2023 from 3.19x and 1.52x respectively in fiscal 2022. However, with realizations improving and better spreads, interest coverage is expected at over 3 times and debt/EBITDA at below 2x by fiscal 2025. Financial risk profile of the company is also supported by large un-encumbered cash and equivalents of ~Rs 680 crore as on December 31,2022. This along with cash accruals of Rs.60-70 crore in fiscal 2023, will suffice to meet debt servicing obligations of Rs.68 crore and capex of Rs.15 crore. Cash accruals are expected to recover to over ~Rs 185 crore per annum from fiscal 2024, which shall be adequate for debt repayment of Rs 76 crore and Rs 140 crore in fiscal 2024 and fiscal 2025 respectively and modest capex (Rs.15-20 crore per annum).
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, and the company's average financial risk profile. 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, Chemplast Sanmar Limited (CSL).

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 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:

- **Significant market share and healthy demand prospects:** CCVL registered healthy double-digit growth in revenues driven by strong demand and realization post covid. Though revenue is expected to decline by 23% in fiscal 2023, volume growth continues to remain steady at 7-8% due to strong domestic demand. Total Indian consumption of PVC is expected to be at 3.3 Mn MPTA in 2023 out of which only 1.5 Mn MTPA capacity is available domestically. More than 50% of the domestic requirement is imported. CCVL has a very strong domestic market position and is the 2nd biggest manufacturer of PVC products in India only behind Reliance Industries which is the market leader. 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 muted capacity addition by the PVC players which is due to high capex requirements and the need to import the key inputs . Revenue visibility over the medium term will be driven by steady demand for suspension PVC. PVC realizations which had been witnessing pressure between March-November 2022 are expected to gradually improve in the medium term.

- **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 cr 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.

- **Average financial risk profile:** Financial risk profile of the company remained steady in fiscal 2022 with interest coverage remaining above 3x; moderation in the performance is expected in fiscal 2023, due to lower profits and cash generation. Interest coverage is expected to moderate to 1.58x in fiscal 2023 due to lower operating profits, and then recover to over 3x in fiscal 2024, supported by better S-PCV-VCM spreads. Tangible net worth is expected to remain negative over the medium term albeit improve with higher absolute profits. Debt/EBITDA is expected to be lower than 2.2x in the medium term, though it is expected to increase to 5.36x in the fiscal 2023. With moderate capex of 15-20 crore per year in the medium term and no plan for additional capacity addition, CCVL's financial risk profile is expected to gradually recover. The financial risk profile will also continue to be supported by unencumbered cash reserves of above Rs 620 crore expected at the end of the current fiscal.

Weaknesses

- **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. 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% 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 30-40 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.

- **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. 680 crore as on December 31, 2022. CCVL is expected to maintain liquidity (unencumbered surpluses) at ~Rs. 600-620 crore over the near to medium term. Annual accruals of over ~Rs. 64 crores in fiscal 2023 along with the unencumbered cash reserve is expected to be sufficient to meet debt repayments of Rs 68 crore in fiscal 2023 and modest capex of Rs 15 core. Cash accrual is expected to recover to over Rs 185 crore annually from fiscal 2024 with improvement in operating performance, and suffice to make debt repayment of Rs 76 crore in fiscal 2024, and moderate capex of Rs 15-20 crore. Company's fund based working capital limits are modest and are sub-limits of non-fund-based limits which are utilized almost 85% on an average towards raw material import.

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 gradually driven by better operating performance benefitting cash generation and aid in gradual 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 could result in similar rating action on CCVL
- Improvement in operating performance with EBITDA per ton sustaining above Rs. 14000-16000 per ton
- 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 impacting cash generation
- 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 2.5-2.75 times on a sustained basis
- 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 nine month period ended December 31, 2022, CCVL reported a net loss of Rs 31 crore on net sales of Rs. 2280 crore, compared with net profit of Rs. 186 crore on net sales of Rs. 2722 crore during corresponding period of previous fiscal.

About CSL:

CSL, part of the South India based Sanmar Group, is among the leading PVC and chemicals player in India. CSL completed its IPO on August 24, 2021 and post IPO promoter shareholding is ~55% and balance 45% is with the public. CSL started operations in 1967 with manufacturing of PVC. CSL, currently, on a standalone basis has installed capacities for manufacturing 66,000 MTPA of specialty paste PVC resin, 119,000 MTPA of caustic soda, 35,000 MTPA of Chloromethanes and 34,000 MTPA of Hydrogen Peroxide and 1068 MTPA of custom manufactured chemicals across 3 locations in Tamil Nadu.

For the nine month period ended December 31, 2022, on a consolidated basis, CSL reported a net profit of 106 crore on net sales of Rs. 3794 crore, compared with net profit of Rs. 417 crore on net sales of Rs. 4085 crore during corresponding period of the previous fiscal.

Key Financial Indicators - CCVL

Particulars	Unit	2022	2021
Revenue	**Rs.Crore**	**3883**	**2511**
Profit After Tax (PAT)	**Rs.Crore**	**288**	**286**
PAT Margin	**%**	**7.4**	**11.4**
Adjusted Debt/Adjusted networth	**Times**	**(0.87)**	**(0.70)**
Interest Coverage	**Times**	**3.19**	**3.23**

Any other information: Not applicable

Note on complexity levels of the rated instrument:

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

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

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Annexure - Details of Instrument(s)

ISIN	Name of Instrument	Date of Allotment	Coupon Rate (%)	Maturity Date	Issue Size (Rs.Crore)	Complexity levels	Rating Assigned with Outlook
NA	Term Loan	NA	NA	May-30	494	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	Nov-26	139	NA	CRISIL AA-/Stable
NA	Term Loan	NA	NA	May-30	95	NA	CRISIL AA-/Stable
NA	Letter of Credit#	NA	NA	NA	110	NA	CRISIL AA-/Stable
NA	Letter of Credit*	NA	NA	NA	450	NA	CRISIL AA-/Stable
NA	Letter of Credit%	NA	NA	NA	120	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	Letter of Credit@	NA	NA	NA	45	NA	CRISIL AA-/Stable
NA	Letter of Credit&	NA	NA	NA	140	NA	CRISIL AA-/Stable
NA	Proposed Non Fund based limits	NA	NA	NA	160	NA	CRISIL A1+
NA	Proposed Long Term Bank Loan Facility	NA	NA	NA	72	NA	CRISIL AA-/Stable

#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 5 crore WCDL as sublimit
%WCDL of Rs 7 crore and OD of Rs 2.8 crore as sublimits
***Rs 150 crore sub limit for BG/SBLC for Buyers Credit; Rs 20 crore sublimit for WCDL/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

Annexure - Rating History for last 3 Years

	Current			2023 (History)		2022		2021		2020		Start of 2020
Instrument	Type	Outstanding Amount	Rating	Date	Rating	Date	Rating	Date	Rating	Date	Rating	Rating
Fund Based Facilities	LT	805.0	CRISIL AA-/Stable		--	12-04-22	CRISIL AA-/Stable	11-11-21	CRISIL A+/Positive		--	--
Non-Fund Based Facilities	ST/LT	1745.0	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-/Stable
Letter of Credit^	45	CTBC Bank Co Limited	CRISIL AA-/Stable
Letter of Credit%	140	IDBI Bank Limited	CRISIL AA-/Stable
Letter of Credit	200	IndusInd Bank Limited	CRISIL AA-/Stable
Letter of Credit$	450	YES Bank Limited	CRISIL AA-/Stable
Letter of Credit#	225	IDFC FIRST Bank Limited	CRISIL AA-/Stable
Letter of Credit@	120	JP Morgan Chase Bank N.A.	CRISIL AA-/Stable
Letter of Credit!	145	ICICI Bank Limited	CRISIL AA-/Stable
Letter of Credit~	150	RBL Bank Limited	CRISIL AA-/Stable
Letter of Credit<	110	Indian Overseas Bank	CRISIL AA-/Stable
Proposed Long Term Bank Loan Facility	72	Not Applicable	CRISIL AA-/Stable
Proposed Non Fund based limits	160	Not Applicable	CRISIL A1+
Term Loan	234	NIIF Infrastructure Finance Limited	CRISIL AA-/Stable
Term Loan	494	IndusInd Bank Limited	CRISIL AA-/Stable

This Annexure has been updated on 05-Apr-2023 in line with the lender-wise facility details as on 11-Nov-2021 received from the rated entity.
^ - 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
@ - WCDL of Rs 7 crore and OD of Rs 2.8 crore as sublimits
! - 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

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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