

# Chemplast Sanmar Ltd

## Weak sentiment in PVC pricing weighs on earnings

### Our View

Chemplast Sanmar's (CHEMPLAS) consolidated reported operating profit at Rs 974mn (-72% YoY; +25% QoQ), though marginally ahead of our expectation (YES : Rs 727mn), but was well below consensus estimates (Rs 1404mn). The Indian PVC market experienced a flood of inexpensive Chinese imports throughout most of FY23, resulting in a threefold YoY increase in imports, except for a brief respite from December 2022 to February 2023. This situation exerted pressure on prices and margins. Additionally, the commissioning of expanded capacities affected prices and margins for other products such as Caustic soda, Hydrogen peroxide, and Chloromethanes. However, the CSM business stood out positively, achieving a 26% YoY revenue growth in FY23. Furthermore, in the second half of FY23, Chemplast Sanmar secured letters of intent (LOIs) for two new products, in addition to the nine products already in production. The company also has a pipeline of 10-14 molecules, which is expected to contribute to revenue in the upcoming quarter. Moreover, the planned capacity expansion in Paste-PVC in the second half of FY24 will provide incremental revenue contributions throughout FY24 and FY25.

### Result Highlights

- **Revenue:** The revenue for the 4Q& FY23 stood at Rs 11.5bn (-36% YoY; -3.5% QoQ) and Rs 49.4bn (-16.1% YoY), respectively. The revenue for the FY23 period declined YoY despite 6-9%YoY higher volumes on account of weaker PVC prices. PVC prices while initially stable in the 4QFY23, declined sharply towards the end on increased imports from China.
- **4Q Profitability:** The Ebitda and PAT during the quarter stood at Rs 974mn (-72% YoY; +25% QoQ) and Rs 461mn (-80% YoY; +70% QoQ), respectively, which though sequentially better on QoQ improved PVC realization but still stood weaker and well below same quarter last year.
- **FY23 Profitability:** The Ebitda & PAT for the year stood at Rs 4.7bn (-61% YoY) and Rs 1.5bn (-76% YoY). During the period profitability was impacted by weaker PVC prices and margins and higher energy costs
- **Specialty Chemicals:** The Revenue and Ebit for the segment stood at Rs 4.3bn (-34% YoY; -32% QoQ) and Rs 96mn (-94% YoY; -84% QoQ)
- **Commodities:** The Revenue and Ebit for the segment stood at Rs 7.2bn (-38% YoY; +6.6% QoQ) and Rs 469mn vs a loss of Rs 399mn in the previous quarter.
- **Sales Volume:** a) **Specialty:** The segment volume for 4QFY23 stood at 16500mt (-25.4% YoY; -15.1% QoQ); for the FY23 the same stood at 69640 mt (+6% YoY) b) **Non Specialty:** The segment volume for 4QFY23 stood at 34756mt (-14% YoY; -19% QoQ); for the FY23 the same stood at 157572 mt (+7% YoY) c) **S PVC :** The segment volume for 4QFY23 stood at 84414mt (-4% YoY; -4% QoQ); for the FY23 the same stood at 325007 mt (+9% YoY)

### Valuation

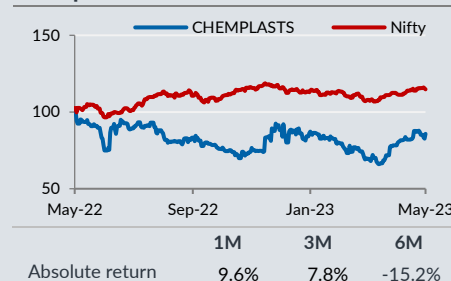
We maintain our BUY rating on CHEMPLAS with a Mar'24 TP of Rs 530/sh. At CMP the stocks is trading at a P/E of 10.2x FY25, as against 12.2x implied by our TP.

Reco	: <b>BUY</b>
CMP	: Rs 417
Target Price	: Rs 535
Potential Return	: +19.4%

#### Stock data (as on May 16, 2023)

Nifty	18,182
52 Week h/l (Rs)	539/342
Market cap (Rs/USD mn)	68335/829
Outstanding Shares (mn)	158
6m Avg t/o (Rs mn):	115
Div yield (%):	-
Bloomberg code:	CHEMPLAS IN
NSE code:	CHEMPLASTS

#### Stock performance



#### Shareholding pattern (As of Mar '23 end)

Promoter	55.0%
FII+DII	35.2%
Others	9.8%

#### Δ in stance

(1-Yr)	New	Old
Rating	BUY	BUY
Target Price	535	530

#### Financial Summary

(Rs mn)	FY22	FY23E	FY24E	FY25E
Revenue	58,853	49,411	45,975	53,407
YoY (%)	54.9	(16.0)	(7.0)	16.2
EBIDTA	11,901	4,681	7,355	11,084
OPM (%)	20.2	9.5	16.0	20.8
PAT	6,419	1,524	3,993	6,917
YoY (%)	56.5	(76.3)	162.1	73.2
EPS	40.6	9.6	25.3	43.7
P/E	11.0	46.5	17.7	10.2
P/BV	4.2	3.8	3.1	2.4
EV/EBITDA	7.4	19.2	11.5	6.9
ROE	94.7	8.6	19.4	26.6

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## Exhibit 1: Comparison with estimates

Rsmn	Actual	Estimate		% Variation		Remarks
		YES Sec	Consensus	YES Sec	Consensus	
Sales	11,468	12793	12847	-10.4	-10.7	Earnings mostly in-line with our estimates but below street estimates
EBITDA	974	727	1404	33.9	-30.6	
EBITDA Margin (%)	8%	6%	11%	3bps	-2bps	
Adjusted PAT	461	101	593	358.1	-22.3	

## Exhibit 2: Earnings snapshot

Particulars (Rs mn)	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	y/y (%)	q/q (%)	FY22	FY23	y/y (%)
Revenue	18,069	14,113	11,944	11,886	11,468	(36.5)	(3.5)	58,920	49,411	(16.1)
Expenditure	14,605	12,172	10,959	11,104	10,494	(28.1)	(5.5)	46,956	44,729	(4.7)
-Raw Material	12,055	9,041	7,820	7,771	7,475	(38.0)	(3.8)	37,140	32,107	(13.6)
-Staff Cost	293	363	382	337	391	33.6	16.0	1,203	1,472	22.4
-Other Expenses	2,258	2,768	2,758	2,997	2,628	16.4	(12.3)	8,613	11,151	29.5
EBITDA	3,464	1,941	984	781	974	(71.9)	24.7	11,964	4,681	(60.9)
EBITDA margin (%)	19.2	13.8	8.2	6.6	8.5	-1068 bps	192 bps	20.3	9.5	1083 bps
Other Income	88	158	167	165	309	253.5	87.2	577	799	38.5
Depreciation	402	406	334	346	335	(16.8)	(3.4)	1,371	1,420	3.6
EBIT	3,150	1,693	818	600	949	(69.9)	58.1	11,170	4,060	(63.7)
EBIT margin	17	12	7	5	8	-916 bps	322 bps	19	8	1074 bps
Interest	349	362	400	395	384	10.1	(2.7)	3,217	1,540	(52.1)
Exceptional Item	-	(805)	-	-	-	-	-	-	(805)	-
PBT	2,801	526	418	206	565	(79.8)	174.6	7,953	1,715	(78.4)
Tax	485	121	33	(66)	104	(78.5)	(258.4)	1,470	192	(87.0)
PAT	2,316	406	385	271	461	(80.1)	69.8	6,483	1,524	(76.5)
Adj.PAT	2,316	1,211	385	271	461	(80.1)	69.8	6,483	2,127	(67.2)

Source: Company, YES Sec

## Exhibit 3: Operational highlights

Particulars	Q4 FY22	Q1 FY23	Q2 FY23	Q3 FY23	Q4 FY23	y/y (%)	q/q (%)	FY22	FY23	y/y (%)
<b>Volume</b>										
Specialty Chemicals	22,109	13,639	20,064	19,437	16,500	-25%	-15%	65,841	69,640	6%
Non-Specialty Chemicals	40,521	37,989	41,690	43,137	34,756	-14%	-19%	146,652	157,572	7%
Suspension PVC	87,523	74,483	77,933	88,177	84,414	-4%	-4%	298,792	325,007	9%
<b>Revenue (USD/tonne)</b>										
Specialty Chemicals	2,525	2,438	1,793	1,746	1,887	-25%	8%	2,665	1,966	-26%
Non-Specialty Chemicals	751	787	679	668	588	-22%	-12%	663	681	3%
Suspension PVC	1,758	1,603	1,097	929	1,041	-41%	12%	1,747	1,167	-33%
<b>SA-USD/unit metrics</b>										
Revenue	1,376	1,428	1,155	1,224	1,015	-26%	-17%	1,255	1,240	-1%
COGS	589	570	537	596	422	-28%	-29%	422	543	29%
Ebitda	405	304	141	162	74	-82%	-54%	393	217	-45%
<b>S-PVC-USD/unit metrics</b>										
Revenue	1,759	1,461	1,005	771	1,036	-41%	34%	1,746	1,207	-31%
COGS	1,409	1,175	832	649	821	-42%	26%	1,357	977	-28%
Ebitda	236	127	46	(7)	95	-60%	-1393%	249	99	-60%

## CONCALL HIGHLIGHTS

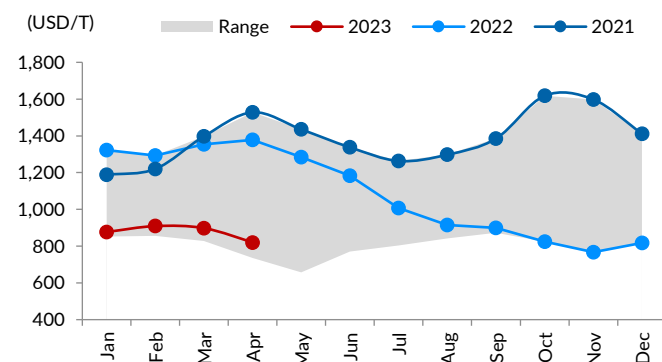
- During the year Paste PVC and S-PVC demand was strong; paste PVC demand increased by 17% YoY to 163tmt and S PVC by 30% YoY to 3.7mmt
- Pricing sluggish in FY23, due to lockdown in China which led to dumping of Chinese PVC in India, leading to pricing pressure till Nov'22. After Nov'22, price stability was seen over Dec'22-Jan'23, post the same price again declined sharply on higher imports from China
- 332TMT of SPVC import in the country for in just 4QFY23 and 775TMT for the entire FY23 vs 250TMT in FY22 and 73TMT in FY21
- 27% of the entire PVC import coming in India is carbide based PVC from China
- Pace of import slowed down in April and expected to moderate further in May'23
- Volume decline in Spec. chemicals witnessed in 4Q; led to drop in top line . However annual volumes were higher by 6%
- Volume of S-PVC was up by 9% YoY in FY23
- Over 4Q, drop in volume and prices of most allied products (Caustic Soda, Chloromethanes, Hydrogen peroxide etc ) due to capacity commissioning in India; Business to stabilize over next few quarters
- Custom manufacture business growth continued to be strong with revenue growth of 26% YoY in FY23
- Signed an Lol with global agrochemical innovator; commercial supply to start from 4QFY24; product to be manufactured in new production block
- In Nov'22 had signed another Lol with combined potential of both Lol is Rs 8bn over 5 years
- First phase of custom manufacturing block is likely to commissioned in 1HFY24, the visibility for utilization of the first phase is high. The second phase is to be complete by Mar'24. After commissioning of both phases , Rs 10bn topline is expected from custom manufacturing.
- Production Paste PVC: FY22 - 64838mt, FY23 68630mt,
- Production Suspension PVC in FY22 - 299000mt and FY23 - 393000tons
- Capex projects viz Paste PVC expansion and MPP Berigai on track
- 1QFY24 to be challenging due to drop in PVC prices
- However, demand is strong and energy prices have started dropping
- Decline in revenue due to lower realization and lower volumes
- Other expenses reduced due to lower power and fuel costs
- Paste PVC expansion commissioning by Nov'23, from incremental capacity of 41tmt, the sales is expected to be 8-10 TMT in FY24 and full 41tmt utilization in FY25 ; demand is strong, utilization should not be challenge
- Incremental expansion in Paste PVC of 30tmt is possible as approvals are in place and demand environment is strong
- Custom manufacturing : gaps in utilization needs to be filled, 12-18month of approval time from the customers for inquiry to commercialization , next 2-3 quarter more clarity to emerge on utilization
- Pipeline visibility is there for custom manufacturing as capacity gets commissioned the same would be actualized (25-26mins)
- Awaiting regulatory decision to restrict dumping of low quality PVC in Indian market
- Market of paste PVC to be 180tmt in FY24 and can go up to 200TMT in FY25,

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- Diversified sourcing of VCM from NE Asia, SE Asia, Europe and Middle East
- Availability of ethylene in India is constrained and key bottle neck for putting up a backward integrated PVC plant
- On a steady state base, 40% of gross margin in custom manufacturing
- Power and fuel spend at 6700mn
- Raw material for CSM are sourced domestically and also imported. Imports from Europe as well as from China; However, emphasis on domestic sourcing
- Working on 10-14 products on active basis other than ones which are commercialized; 1000 cr of revenue targeted in next 3-4 years from the Custom Manufacturing which includes in production and in pipeline molecules
- Price of SPVC continued to weaken through Mar-May'23 ; Paste PVC is however stable at Mar levels
- Price of caustic soda etc also declined due to incremental capacity addition
- Custom manufacturing: FY23 total 9 molecules commercial, to add three molecules in FY24 , another 10-11 molecules in pipeline
- 1300 mt production in FY23, the two new molecules which are to be added would contribute 1400 tonnes p.a. on steady state basis, however there will be a ramp-up phase involved.
- Suspension PVC realization in Q4FY23 was Rs 84800/ton, current price is Rs76000/ton
- Suspension PVC per capita consumption in India continues to be far below rest of Asia

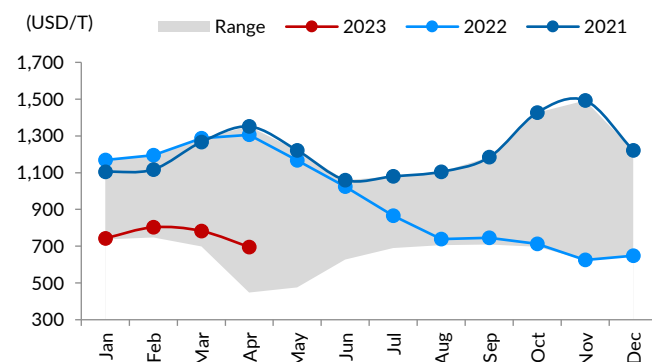
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**Exhibit 4: PVC price averaged \$895 in 4QFY23 (-32% YoY; +11% QoQ); After continual decline for most of FY23, price stabilized between Dec'22-Feb'23 before falling again**



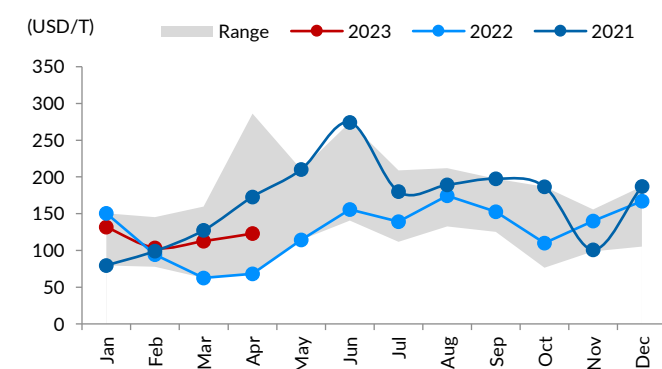
Source: Company, YES Sec

**Exhibit 5: VCM prices averaged \$776 in 2QFY23 (-36% YoY; 17.3% QoQ); VCM prices moving in-line with PVC albeit with a lag**



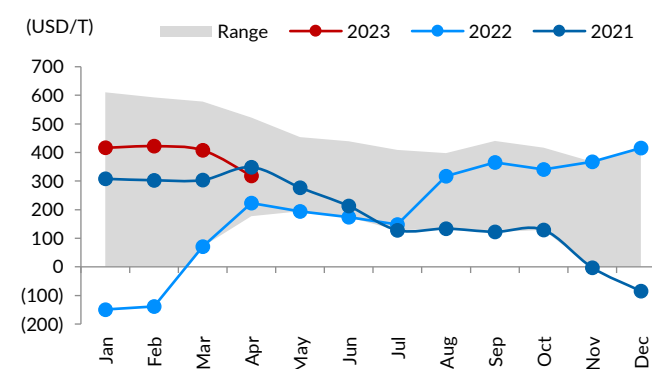
Source: Company, YES Sec

**Exhibit 6: PVC-VCM spreads trend**



Source: Company, YES Sec

**Exhibit 7: PVC-EDC spreads trend**



Source: Company, YES Sec

## FINANCIALS

**Exhibit 8: Income statement**

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
<b>Revenue</b>	32,630	31,228	37,987	58,853	49,411	45,975	53,407
Total Expense	27,382	27,224	28,373	46,952	44,729	38,620	42,323
<b>Operating Profit</b>	5,248	4,004	9,615	11,901	4,681	7,355	11,084
Other Income	0	192	164	575	799	879	967
Depreciation	(815)	(1,291)	(1,311)	(1,371)	(1,420)	(1,500)	(1,600)
<b>EBIT</b>	4,432	2,905	8,468	11,104	4,060	6,734	10,451
Interest	(919)	(2,119)	(4,334)	(3,216)	(1,540)	(1,395)	(1,203)
Extraordinary Item	-	(1,069)	(157)	-	(805.00)	-	-
Profit/Loss from JV	-	(698)	1,493	-	-	-	-
<b>PBT</b>	3,513	-981	5,470	7,888	1,715	5,338	9,247
Tax	871	509	(1,369)	(1,469)	(192)	(1,345)	(2,330)
<b>PAT</b>	4,384	(472)	4,101	6,419	1,524	3,993	6,917
Adj. PAT	4,384	(472)	4,101	6,419	1,524	3,993	6,917
Eps	28	-3	26	40.6	9.6	25.3	43.7

Source: Company, YES Sec

**Exhibit 9: Balance sheet**

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Equity capital	3,700	670	670	791	791	791	791
Reserves	21,660	16,508	(4,165)	16,260	17,794	21,787	28,704
<b>Net worth</b>	25,360	17,178	(3,495)	17,050	18,585	22,578	29,495
Total Debt	3,010	21,429	21,102	8,674	10,080	7,188	6,188
Deferred tax liab (net)	8,160	6,751	7,200	7,415	7,167	7,167	7,167
<b>Capital Employed</b>	36,530	45,358	24,807	33,139	35,831	36,932	42,849
<b>Fixed assets</b>	33,130	32,447	31,577	32,288	35,256	36,030	35,171
Investments	15,150	26,441	0	0	0	0	0
<b>Net working capital</b>	(11,750)	(13,529)	(6,770)	850	575	902	7,678
Inventories	3,877	3,198	4,071	7,110	6,431	6,091	6,710
Sundry debtors	717	501	739	1,899	1,426	756	878
Cash & Bank Balance	1,025	1,799	6,513	12,292	11,919	13,851	21,838
Other assets	1,073	1,948	1,965	2,421	3,335	3,335	3,335
Sundry creditors	16,260	13,972	16,561	18,783	18,615	19,210	21,162
Other liabilities	2,182	7,004	3,496	4,088	3,921	3,921	3,921
<b>Application of Funds</b>	36,530	45,358	24,807	33,139	35,831	36,932	42,849

Source: Company, YES Sec

## Exhibit 10: Cash Flow statement

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
PBT	1,934	88	5,627	7,956	1,715	5,338	9,247
Depreciation & amortization	564	1,291	1,311	1,371	1,420	1,500	1,600
Interest expense	483	2,119	4,334	3,216	1,540	1,395	1,203
(Inc)/Dec in working capital	(391)	(839)	480	(1,412)	(123)	1,606	1,211
Tax paid	(552)	(424)	(605)	(1,736)	(934)	(1,345)	(2,330)
Less: Interest/Dividend Income Received	(4)	(83)	(123)	339	-	-	-
Other operating Cash Flow	309	(295)	(258)	(724)	(65)	-	-
<b>Cash flow from operating activities</b>	<b>2,342</b>	<b>1,856</b>	<b>10,764</b>	<b>9,010</b>	<b>3,554</b>	<b>8,494</b>	<b>10,931</b>
Capital expenditure	(600)	(645)	(554)	(1,125)	(4,196)	(2,275)	(741)
Inc/(Dec) in investments	(2,611)	(12,414)	24,553	-	-	-	-
Add: Interest/Dividend Income Received	4	83	109	308	649	-	-
Other items	98	(819)	(2,592)	1,898	1,375	-	-
<b>Cash flow from investing activities</b>	<b>(3,109)</b>	<b>(13,795)</b>	<b>21,516</b>	<b>1,082</b>	<b>(2,172)</b>	<b>(2,275)</b>	<b>(741)</b>
Inc/(Dec) in share capital	-	(17,235)	(24,553)	13,000	-	-	-
Inc/(Dec) in debt	1,041	6,821	(1,672)	(12,898)	1,517	(2,892)	(1,000)
Dividend Paid	-	-	-	-	-	-	-
Others	(1,074)	22,283	(3,941)	(3,230)	(1,787)	(1,395)	(1,203)
<b>Cash flow from financing activities</b>	<b>(33)</b>	<b>11,869</b>	<b>(30,167)</b>	<b>(3,129)</b>	<b>(270)</b>	<b>(4,287)</b>	<b>(2,203)</b>
<b>Net cash flow</b>	<b>(800)</b>	<b>(69)</b>	<b>2,113</b>	<b>6,963</b>	<b>1,112</b>	<b>1,932</b>	<b>7,987</b>
<b>Ending cash balance</b>	<b>1,025</b>	<b>922</b>	<b>3,035</b>	<b>9,998</b>	<b>11,110</b>	<b>13,042</b>	<b>21,029</b>

Source: Company, YES Sec

## Exhibit 11: Du Pont

Y/e 31 Mar (Rs mn)	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
Tax burden (x)	1.2	0.5	0.7	0.8	0.9	0.7	0.7
Interest burden (x)	0.8	-0.3	0.6	0.7	0.4	0.8	0.9
EBIT margin (x)	0.1	0.1	0.2	0.2	0.1	0.1	0.2
Asset turnover (x)	0.6	0.5	0.7	1.2	0.9	0.8	0.8
Financial leverage (x)	2.2	2.9	8.1	7.4	3.2	2.9	2.5
<b>RoE (%)</b>	<b>17.3</b>	<b>-2.2</b>	<b>59.9</b>	<b>94.7</b>	<b>8.6</b>	<b>19.4</b>	<b>26.6</b>

Source: Company, YES Sec



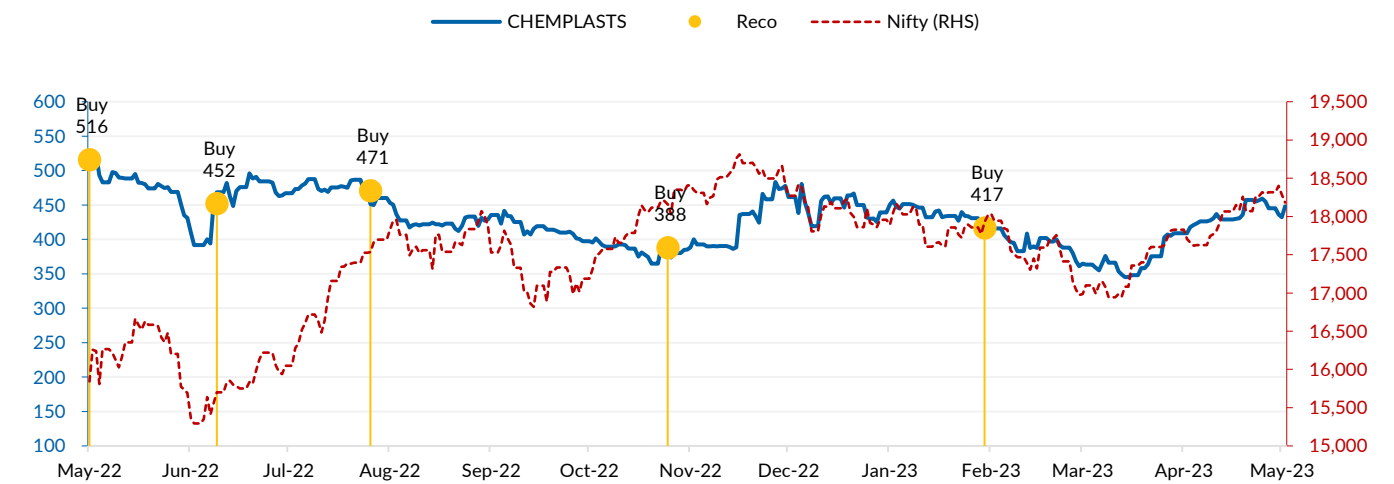
## Exhibit 12: Ratio Analysis

Y/e 31 Mar	FY19	FY20	FY21	FY22E	FY23E	FY24E	FY25E
<b>Growth matrix (%)</b>							
Revenue growth		(4.3)	21.6	54.9	(16.0)	(7.0)	16.2
Op profit growth		(23.7)	140.1	23.8	(60.7)	57.1	50.7
EBIT growth		(34.5)	191.5	31.1	(63.4)	65.8	55.2
Net profit growth		(110.8)	(969.1)	56.5	(76.3)	162.1	73.2
<b>Profitability ratios (%)</b>							
OPM	16.1	12.8	25.3	20.2	9.5	16.0	20.8
EBIT margin	13.6	9.3	22.3	18.9	8.2	14.6	19.6
Net profit margin	13.4	(1.5)	10.8	10.9	3.1	8.7	13.0
RoCE	19.5	5.7	22.4	41.7	13.3	17.2	23.9
RoE	17.3	(2.2)	59.9	94.7	8.6	19.4	26.6
RoA	4.8	1.1	5.2	12.1	5.0	5.6	9.7
<b>Per share ratios</b>							
EPS	12.1	(2.1)	30.6	40.6	9.6	25.3	43.7
Dividend per share	-	-	-	-	-	-	-
Cash EPS	22.6	(11.1)	17.6	31.9	0.7	15.8	33.6
Book value per share	160.4	108.6	(22.1)	107.8	117.5	142.8	186.5
<b>Valuation ratios</b>							
P/E	34.3	(199.5)	13.6	10.3	46.5	17.7	10.2
P/CEPS	18.5	(37.4)	23.6	13.1	683.7	28.4	13.3
P/B	2.6	3.8	(18.9)	3.9	3.8	3.1	2.4
EV/EBITDA	17.8	27.8	11.0	7.4	19.2	11.5	6.9
<b>Payout (%)</b>							
Dividend payout	-	-	-	-	-	-	-
Tax payout	(24.8)	34.3	25.7	18.6	10.6	25.2	25.2
<b>Liquidity ratios</b>							
Debtor days	8.0	7.1	6.0	8.2	6.0	6.0	6.0
Inventory days	322.9	66.8	62.5	54.9	65.0	65.0	65.0
Creditor days	784.6	285.5	262.5	173.7	205.0	205.0	205.0

Source: Company, YES Sec

# Chemplast Sanmar Ltd

**Exhibit 13: Recommendation tracker**



Source: Company, YES Sec

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