

22 March 2024

India | Equity Research | Company Update

Chemplast Sanmar

Speciality Chemicals

CXO 1x1: Mr. Ramkumar Shankar, MD and Mr. N Muralidharan, CFO

We met Ramkumar Shankar, MD and N. Muralidharan, CFO of Chemplast Sanmar. Takeaways: **1)** Custom manufacturing (CM) had challenging FY24, but it expects significant ramp-up of new products, and MPP-3 in FY25. More capex in CM if it sells 60% of MPP-3 capacity. **2)** PVC prices and spreads have been stable. This should drive improvement in profitability in coming quarters. Further, the company sees global supplies to be limited which should repair industry. It believes non-tariff and tariff barriers may come into effect which should protect domestic PVC producers. We have cut our EBITDA estimates by 15.6% for FY25E as we build gradual recovery across segments for Chemplast. We revise our SOTP-based TP to INR 550 (from INR 520) on rollover of valuations to FY26E. Maintain **BUY**.

Custom manufacturing – long-term contract provides confidence in business

Chemplast Sanmar (Chemplast) has started the production of two products where it has signed long-term contracts with agro chemical innovator. These two products are intermediate, while a third product is an active ingredient, where supplies are anticipated to start. Though the company had faced a few teething issues at its new plant, it has successfully started commercial supplies in Q4FY24. It is now aiming to improve production efficiencies which will aid profitability.

The company is planning to complete phase-2 of MPP-3 by Q1FY25 which should help in driving sale from new products in pipeline. The company would have executed capex of INR 6.8bn with commercialisation of phase-2. It plans to announce more capex in custom manufacturing as it gets visibility for 60% capacity utilisation of MPP-3. It remains hopeful of capex announcement in the segment during FY25.

Agrochemical market remains challenging, driving down volumes for existing products for Chemplast during FY24. It expects custom manufacturing revenue to be flattish in FY24, partly aided by supplies for two new products. However, the company believes ramp-up in sales from MPP-3 should drive significant growth in FY25.

Financial Summary

Y/E March (INR mn)	FY23A	FY24E	FY25E	FY26E
Net Revenue	49,411	38,758	48,067	54,225
EBITDA	4,681	796	7,270	8,987
EBITDA Margin (%)	9.5	2.1	15.1	16.6
Net Profit	1,524	(1,228)	3,350	4,530
EPS (INR)	13.5	(7.8)	21.2	28.6
EPS % Chg YoY	(67.2)	(157.7)	(372.8)	35.2
P/E (x)	46.0	(57.1)	20.9	15.5
EV/EBITDA (x)	14.4	98.1	10.5	8.3
RoCE (%)	11.1	(1.9)	12.5	14.7
RoE (%)	8.6	(6.8)	17.7	20.0

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Market Data

Market Cap (INR)	70bn
Market Cap (USD)	838mn
Bloomberg Code	CHEMPLAS IN
Reuters Code	CHPA BO
52-week Range (INR)	543 /342
Free Float (%)	45.0
ADTV-3M (mn) (USD)	1.1

Price Performance (%)	3m	6m	12m
Absolute	(13.6)	(8.4)	21.3
Relative to Sensex	(16.0)	(18.7)	(3.8)

Earnings Revisions (%)	FY24E	FY25E
Revenue	(7.8)	(12.2)
EBITDA	(42.4)	(15.6)
EPS	-	(21.5)

Previous Reports

04-11-2023: [Q2FY24 results review](#)

13-08-2023: [Q1FY24 results review](#)

Paste PVC – integration has hurt in FY24; company expects normalisation soon

Chemplast is fully backward integrated for existing paste-PVC capacity with its own production of chlor-alkali, EDC and VCM. It imports ethylene and some EDC to meet paste-PVC manufacturing. FY24 has been a peculiar year where caustic soda and EDC prices have simultaneously dropped which are otherwise inversely correlated. Additionally, continuous drop in paste-PVC prices meant transit raw-material was impacted negatively. This situation has resulted in the company's standalone turning EBITDA negative in 9MFY24. Having said that, its silver lining has been good demand for paste-PVC in India.

Paste-PVC had seen some capacities shutting down pre-covid in Korea, the US and China. Another plant in the US (Orbia plant at New Jersey) with capacity of 60ktpa is announced to be closed by Dec'24. New capacity addition has been negligible in paste-PVC. Paste-PVC continues to command premium of ~USD 200/te over S-PVC, but it also has higher production cost; therefore, at EBITDA level, the company makes USD 100/te more profit vs S-PVC. The company has commissioned paste-PVC expansion with the addition of 41ktpa which should start adding to volume growth. It expects the entire plant to be operational by Jul'24, and peak production should be achieved by end-FY25.

New paste-PVC capacity will buy VCM for production which means only one-step backward integration; therefore, earnings volatility will be relatively lower, though across-cycle profitability will be lower compared to integrated facility.

Chinese supply has been an issue for paste-PVC; however, the company is hopeful that import aggression may reduce as government protects domestic producer via non-tariff and tariff based barriers. Paste-PVC imports from China have increased to 17kte in FY23 vs 8kte in FY20.

S-PVC – aggressive imports have hurt; global supply dynamic is favourable in medium term

S-PVC prices have been hurt from significant rise in imports particularly from China. Though imports from the US have also increased, higher transportation and lead time make them less impactful on domestic prices. Further, the company has been hurt from continuous drop in S-PVC / VCM prices due to goods-in-transit which earns much lower margins. The company does not expect further drop in prices, and spreads have been stable for the past two months at USD 175/te which should start reflecting in reported numbers.

Chemplast believes price drop has bottomed, and FY25 should see recovery – 1) China has 70% capacity with integrated facility while 30% PVC producers buy carbide. The economics is significantly straining for non-integrated PVC producers in China. Further, Chinese companies are operating plants much below the desired levels, at ~70%, which means lesser fixed cost absorption; 2) demand in China can see recovery as government is working on certain relief measures; and 3) net capacity addition is not much. China is adding 1-1.5mn tpa capacity in S-PVC, but there are certain shut downs as well.

US follow differential pricing strategy with US domestic PVC prices being significantly higher compared to exported S-PVC prices. US needs special packaging solution for PVC which make it difficult market to access by PVC producers from other geographies. US capacity addition is limited to brownfield of 150-220 tpa, while greenfield expansion is negligible due to certain restrictions which will come for review

only in end-2025. Notably, these regulations have been reviewed since 2012 without much action. Further, capex to build new PVC plant in the US is 3-4x vs India. Considering PVC production is surplus in the US, it is unlikely to put fresh capacity for exports to developing economies. This also has risk from increasing trade barriers making export markets less dependable.

The situation of capacity addition is negative in EU as well. EU has surplus PVC capacity, and unlike US, Europe does not have any feedstock advantage. Japan is seeing destruction in PVC capacity with a few operators limiting production to intermediate. Korea is surplus production market.

SEA (South-East-Asia) may see some capacity addition in Vietnam and Indonesia. SEA is particularly adding caustic soda plant for refining nickel and other inorganic compounds. Chlorine may be used to sink in PVC production. Indonesia is adding 500ktpa EDC capacity. Middle East may add some PVC capacity, largely to meet its rising domestic demand. Taiwan is unlikely to add any fresh capacity.

India is adding significant capacity with Reliance Industries looking to expand PVC capacity by 1.25mn tpa; Adani has plans for green field capacity addition of 2mn tpa. However, Indian demand is rising sharply, and is expected to touch 4mn te in FY24. India's production capacity is just 1.5mn tpa. Assuming India grows at 8% pa, then by FY30, its demand may touch 6.4mn te while production will be 4.75mn tpa, assuming all announced capacity commissions with deficit/ import dependency of 1.6mn te.

Tariff and non-tariff barriers – required to protect domestic manufacturers

Government of India has notified BIS standards for PVC dated on Feb 27, '24. The standard is notified by BIS for implementation with the government providing six months' time period for certification by each supplier who intends to sell PVC in India. Post completion of six months, only BIS certified plants can sell PVC into India. We understand some key PVC producers from Taiwan and Korea have already been certified.

Quality control standard has multiple benefits as inferior quality PVC will be not be sold in the Indian market that disrupts pricing; infrequent and non-strategic seller will not have access to Indian PVC market. China suppliers need to get certified from India BIS agency which will increase complexity for suppliers.

Anti-dumping duty was removed on PVC in Feb'22 due to significant jump in realisation and profitability for domestic producers. However, in the past 12 months, PVC producers have seen significant injury from aggressive exports of PVC to India. PVC industry has requested Indian government to investigate the injury for domestic producers, and re-introduce tariff barriers to protect local production. The government had initiated investigation in Sep'23. Chemplast is hopeful of investigation, and likely tariff based barriers to come into implementation again. Previously, anti-dumping duty was imposed at implied rate of ~4-16% of S-PVC price.

Caustic soda – challenging market; expects only gradual recovery

Chemplast has completed the debottlenecking of caustic soda plant to 120ktpa. However, Indian caustic soda market has remained challenging due to significant capacity addition. Demand remains good from alumina application but has been muted from textiles and paper-pulp segment. Application in agro-chemicals and pharmaceuticals remained healthy.

Chemplast is now working to export caustic soda to SEA market, and has made the necessary changes at jetty to handle its caustic soda exports. This should allow the

company to access more markets outside India which should help in placing capacities relatively easier.

The company consumes the entire chlorine produced captive as feedstock, in fact, sometimes it is required to buy chlorine from the market. Chlorine has negative pricing in India, and captive consumption helps to better monetise chlorine.

Chloromethane prices are under stress due to a large new capacity added in past 12-18 months.

FY25 will largely focus on driving utilisation in completed projects

Chemplast expects limited capex in FY25 largely for completion of phase-2 of MPP-3. It does not have any other project under implementation. In FY25, it will focus on driving utilisation in completed projects in FY24. Therefore, Chemplast will generate good FCF, and it does not anticipate net debt to increase from current levels of INR 6.5bn. The capex announcement is likely only in custom manufacturing in case it is able to sell 60% of MPP-3 plant.

The company has aspiration to expand S-PVC capacity; however, it will do so only if it has strategic supplier for VCM. It has been working for VCM supply agreement which is still under progress.

Valuations and estimates

We have cut our EBITDA estimates by 42% for FY24E which appears high on low base, and 15.6% for FY25E as we now factor in gradual recovery across segments. Our FY25E EPS stands lower by 21.5%. The number could see an upward revision if ADD on PVC is implemented over the next six months.

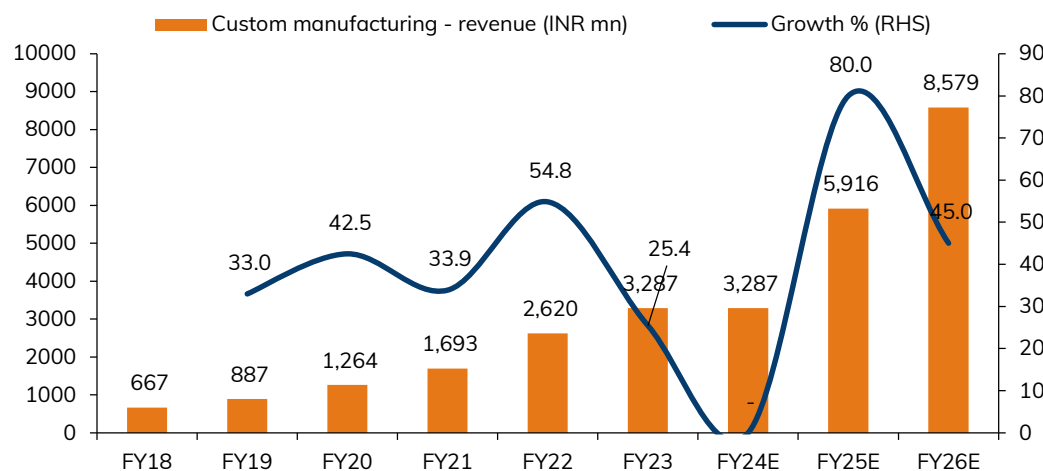
We have rolled over our valuation to FY26E, and raised EV/EBITDA multiple to 8x (from 7x) for standalone business, and 7x (from 6x) for S-PVC. This is due to below long-term median spread assumption, and the possibility of trade barriers benefiting PVC business. Our 20x EV/EBITDA multiple for custom manufacturing stays unchanged. Our revised SOTP-based target price is INR 550 (from INR 520). We maintain **BUY** rating on the stock.

Risks

Downside risks: 1) Continued aggressive exports of PVC from China at lower price, and delay or non-implementation of trade barriers; and 2) continuous downcycle in global agrochemical demand.

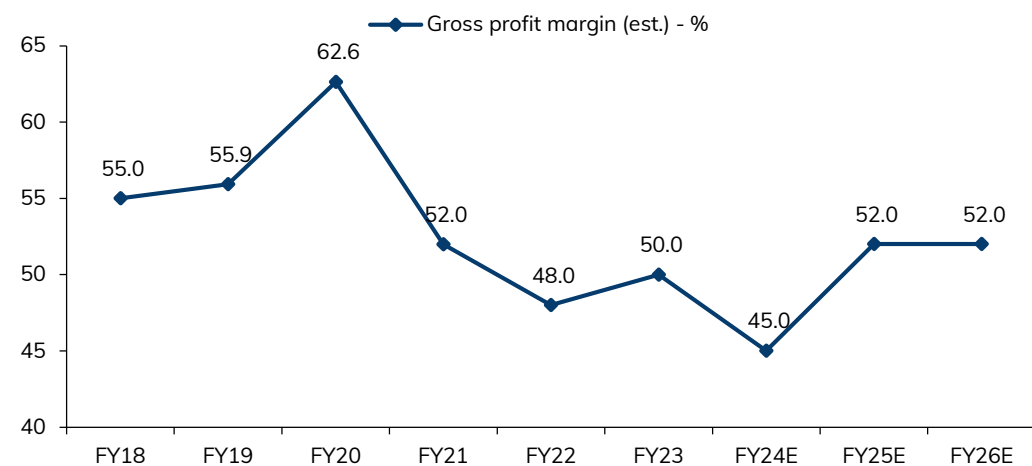
Custom manufacturing

Exhibit 1: One of the best companies to play the agrochemical turnaround



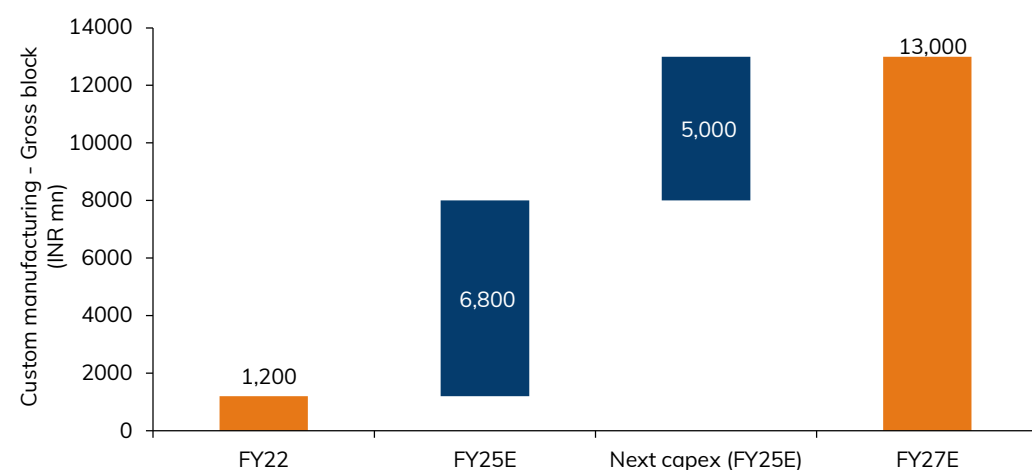
Source: Company data, I-Sec research

Exhibit 2: Custom manufacturing gross profit to rise with improvement in efficiency of new products in FY25E



Source: Company data, I-Sec research

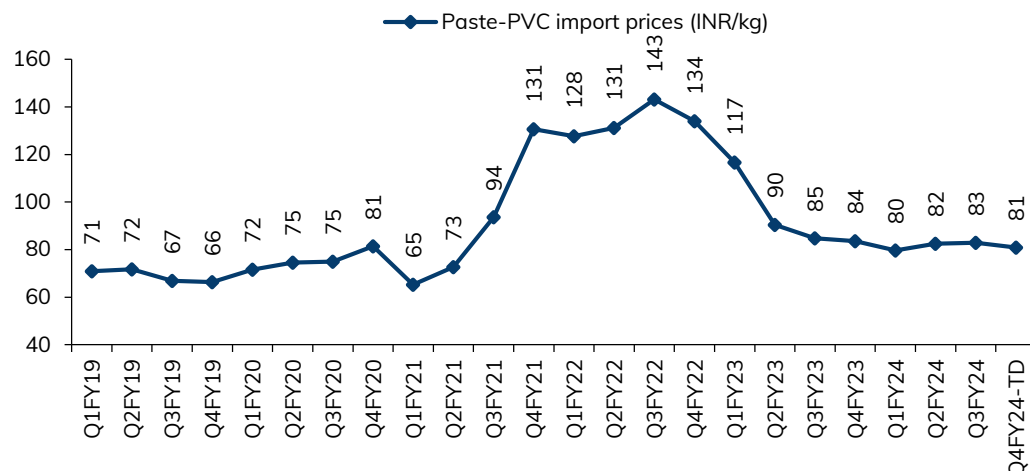
Exhibit 3: We believe Chemplast may announce more capex in custom manufacturing during FY25E



Source: Company data, I-Sec research

Paste-PVC

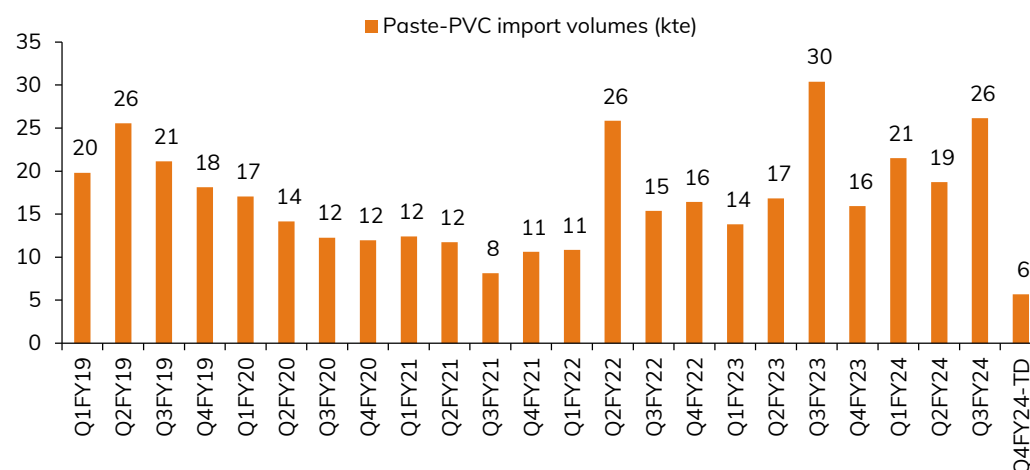
Exhibit 4: Paste-PVC import prices are stabilising which should help in reducing the pain on goods-in-transit, and improve profitability



Source: Commerce Ministry, I-Sec research

Note: Q4FY24-TD includes numbers for only Jan'24

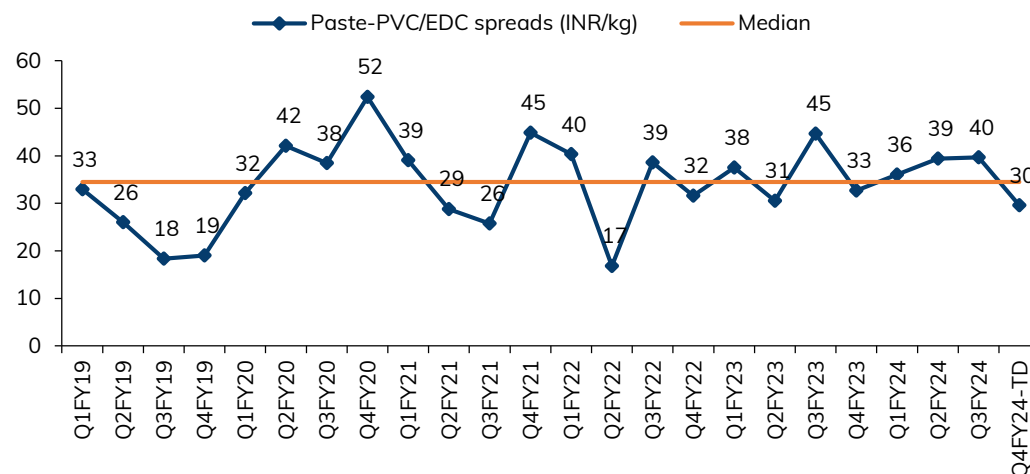
Exhibit 5: Paste-PVC imports are not very elevated...they have reached levels of FY19/FY20



Source: Commerce Ministry, I-Sec research

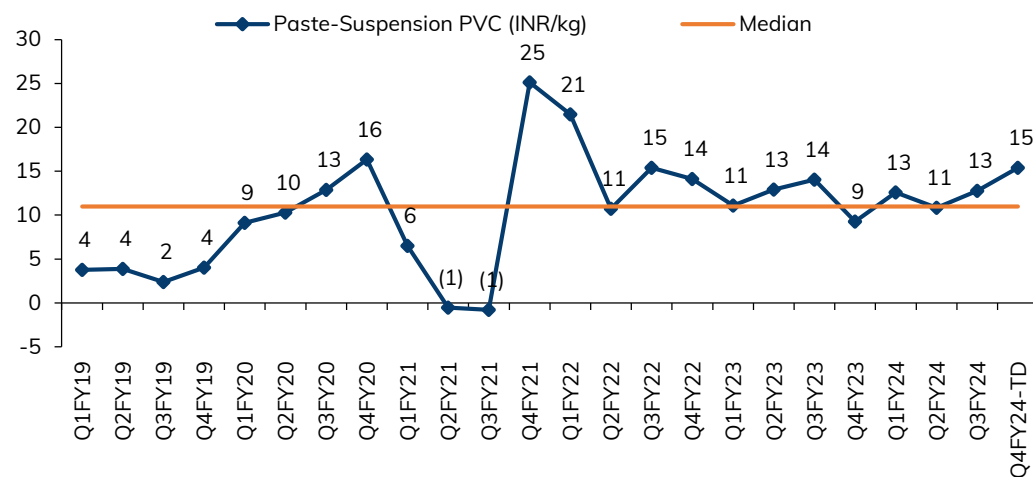
Note: Q4FY24-TD includes numbers for only Jan'24

Exhibit 6: Paste-PVC / EDC spreads are only 10% below long-term median



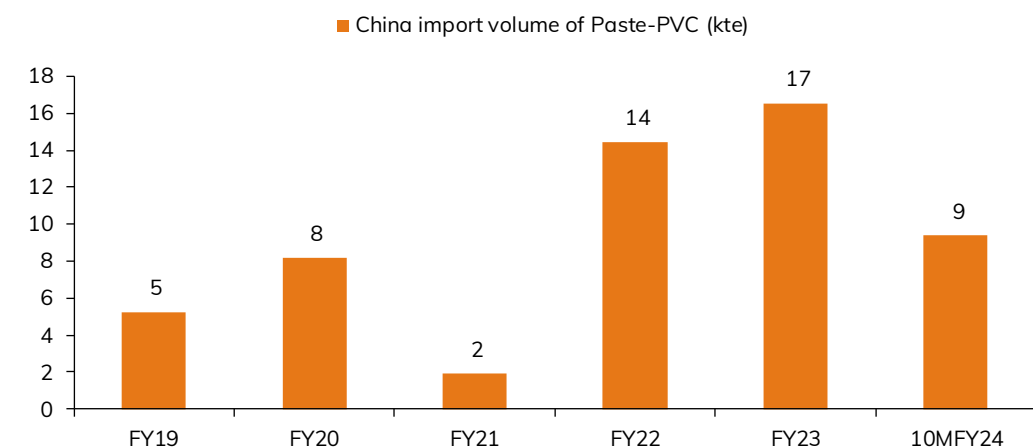
Source: Commerce Ministry, I-Sec research

Note: Q4FY24-TD includes numbers for only Jan'24

Exhibit 7: Paste-PVC prices stand at US\$ 150-170/te premium vs S-PVC


Source: Commerce Ministry, I-Sec research

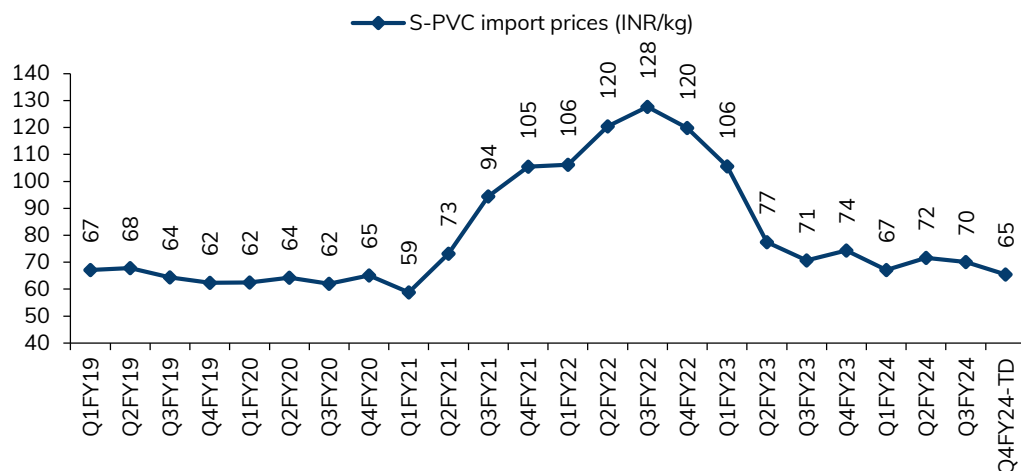
Note: Q4FY24-TD includes numbers for only Jan'24

Exhibit 8: China's import of paste-PVC has grown significantly vs pre-covid


Source: Commerce Ministry, I-Sec research

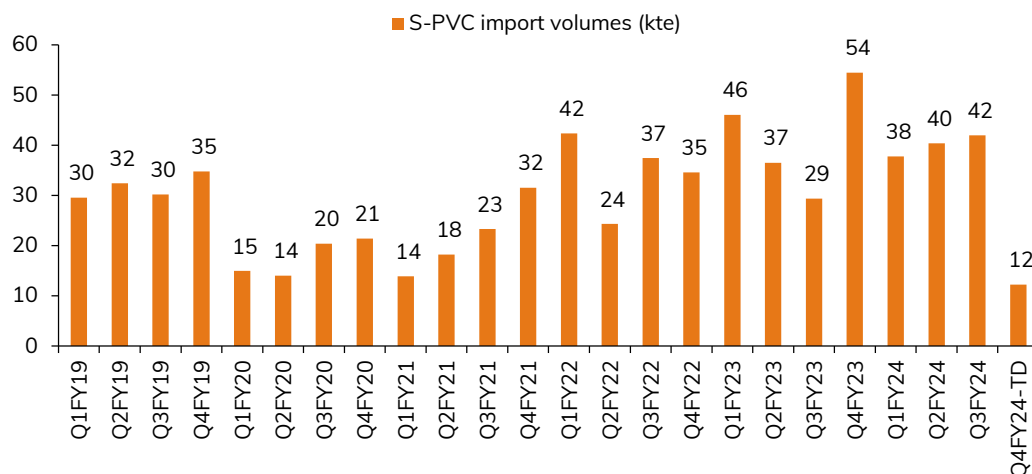
Suspension-PVC

Exhibit 9: S-PVC prices have reached pre-covid levels. Government had provided protection through anti-dumping duty to domestic producers during pre-covid



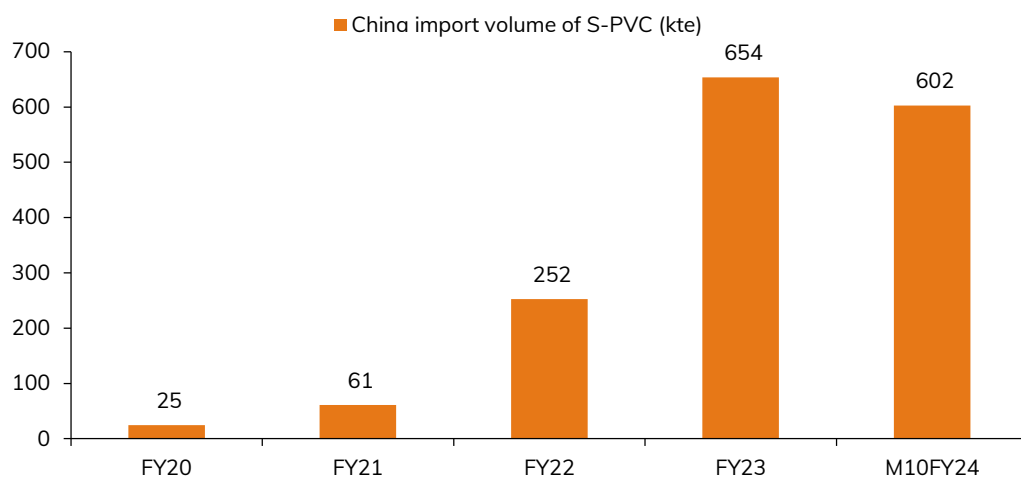
Source: Commerce Ministry, I-Sec research Note: Q4FY24-TD includes numbers for only Jan'24

Exhibit 10: Removal of anti-dumping duty in Feb'22 has led to significant surge in imported volumes...

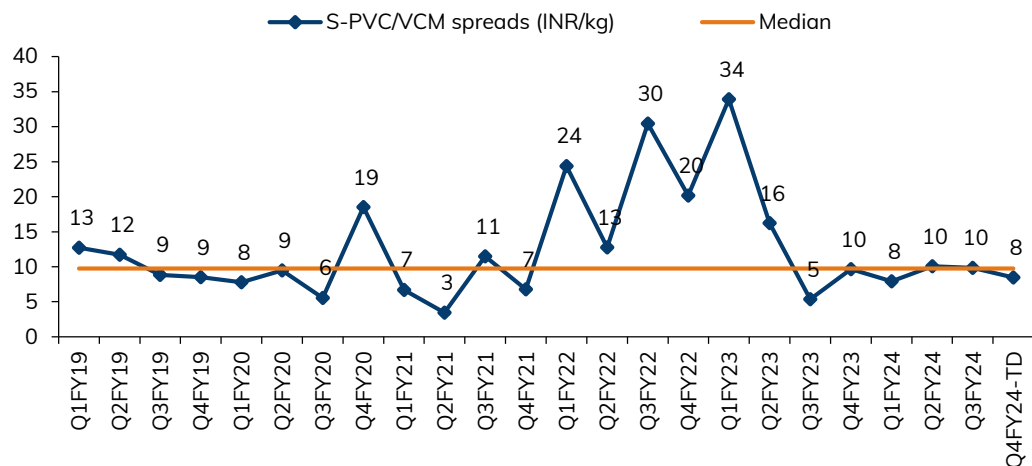


Source: Commerce Ministry, I-Sec research Note: Q4FY24-TD includes numbers for only Jan'24

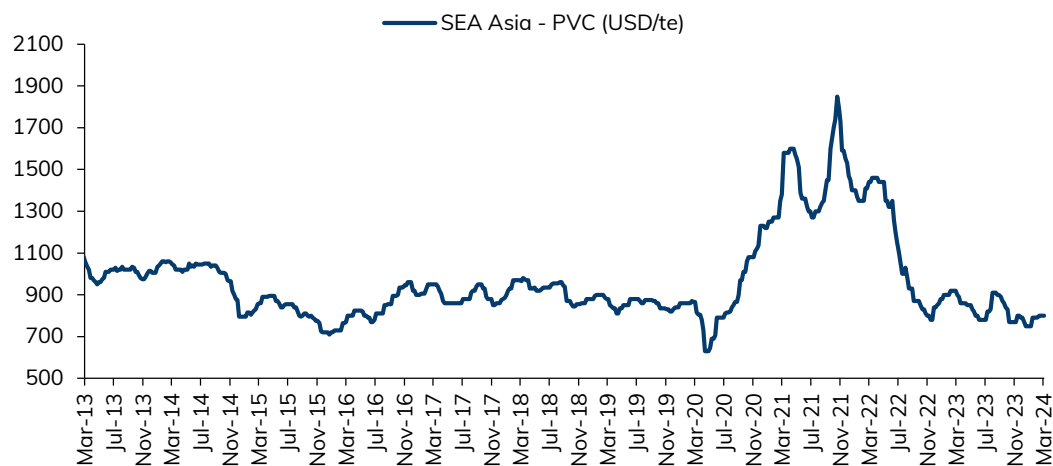
Exhibit 11: ...particularly from Chinese producers



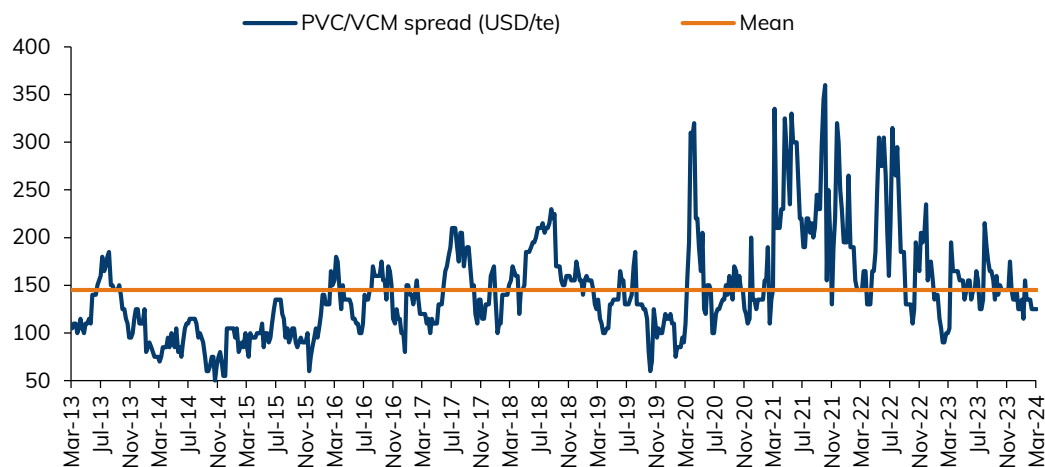
Source: Commerce Ministry, I-Sec research

Exhibit 12: S-PVC/VCM spreads are slightly lower vs long-term median

Source: Commerce Ministry, I-Sec research Note: Q4FY24-TD includes numbers for only Jan'24

Exhibit 13: SEA prices have moved up slightly recently

Source: Bloomberg, I-Sec research

Exhibit 14: S-PVC/VCM spreads are 10% below long-term mean for SEA

Source: Bloomberg, I-Sec research

Non-tariff and tariff based barriers to protect domestic producers

Exhibit 15: Government has notified BIS standard for PVC quality for India which is applicable for both domestic and imported PVC

Goods or Article	Indian Standard	Title of Indian Standard
(1)	(2)	(3)
Poly Vinyl Chloride (PVC) Homopolymers	IS 17658:2021	Poly Vinyl Chloride (PVC) Homopolymers – Specification

Source: Dept. of Chemicals and Petrochemicals, I-Sec research

Exhibit 16: Various steps are involved in BIS certification process

- **Standard Identification:** Manufacturers identify the relevant BIS standard that applies to their chosen product category. These standards outline the specific quality, safety, and performance requirements that the product must meet.
- **Application Submission:** Manufacturers submit an application for BIS certification to the Bureau of Indian Standards (BIS), providing details about the product, its specifications, and the desired certification mark.
- **Factory Inspection:** BIS conducts an inspection of the manufacturer's production facility to assess the quality control processes, infrastructure, and adherence to relevant standards.
- **Sample Testing:** BIS collects samples of the product from the manufacturer for testing in authorized BIS laboratories or recognized testing centers. These tests evaluate various parameters specified by the BIS standard.
- **Certification Decision:** Based on the satisfactory test results and compliance with standards, BIS decides whether to grant certification to the product. If approved, the manufacturer is issued a BIS certification license.
- **Regular Monitoring:** BIS monitors the manufacturing process of certified products through periodic audits and market surveillance to ensure ongoing compliance with quality control processes and standards.

Source: I-Sec research [Link](#)

Exhibit 17: ADD on S-PVC got expired in Feb'22 which was implemented in Jun'14. ADD was ~4-16% (implied) of S-PVC prices

The Ministry of Finance under the government of India had levied ADD between \$29.99 and \$147.96 per tonne of Homopolymer of vinyl chloride monomer (suspension grade), depending upon producers across China, Thailand, and the United States of America. The ADD was imposed first on Homopolymer of vinyl chloride monomer (suspension grade) on June 13, 2014, for five years initially to protect the interest of local companies and prevent cheap dumping into India, and eventually damage to the domestic producers. The ADD was later extended periodically.

India's finance ministry had on August 10, 2019, extended the ADD for 30 months which got expired on February 12, 2022, in absence of any extension granted by the government. Even domestic producers did not raise their concerns which can justify any damage post-removal of ADD.

"India's Finance Ministry had in the last notification issued dated August 10, 2019, extended validity of ADD levy for 30 months which expired on February 12, 2022. There was no notification thereafter from the Ministry of Finance or any constitutional body. This means, the government wanted ADD to expire, probably there was no dumping of Homopolymer of vinyl chloride monomer (suspension grade) from any exporter either from China, Thailand, or United States. Now, Indian user industries can import Homopolymer of vinyl chloride monomer (suspension grade) if the imported costs favour the move," said a senior official with one of India's largest PVC producing companies.

Source: I-Sec research [Link](#)

Exhibit 18: Anti-dumping duty investigation initiation notification on paste-PVC during Sep'23

Dated: 30th September 2023

INITIATION NOTIFICATION

Case No. AD(OI) – 16/2023

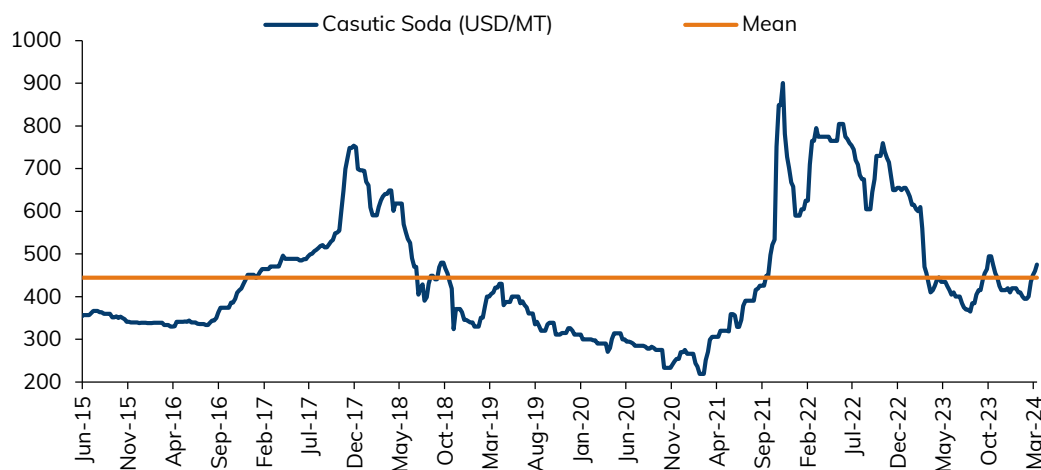
Subject: Initiation of anti-dumping investigation concerning imports of “Poly Vinyl Chloride Paste Resin” originating in or exported from China PR, Korea RP, Malaysia, Norway, Taiwan & Thailand.

F. No. 6/17/2023-DGTR – M/s Chemplast Sanmar Limited (hereinafter referred to as the “applicant”) has filed an application before the Designated Authority (hereinafter referred to as the ‘Authority’), in accordance with the Customs Tariff Act, 1975 as amended from time to time (hereinafter referred to as the ‘Act’) and the Customs Tariff (Identification, Assessment, and Collection of Anti-Dumping Duty on Dumped Articles and for Determination of Injury) Rules, 1995, as amended from time to time (hereinafter referred to as the ‘Rules’), seeking initiation of an anti-dumping investigation on imports of ‘Poly Vinyl Chloride Paste Resin’ (hereinafter referred to as the ‘product under consideration’ or ‘subject goods’ or ‘PVC Paste Resin’), originating in or exported from China PR, Korea RP, Malaysia, Norway, Taiwan & Thailand (hereinafter referred to as the “subject countries”).

Source: DGFT, I-Sec research

Caustic soda

Exhibit 19: Caustic soda prices for SEA have now reached long-term mean



Source: Bloomberg, I-Sec research

Financial

Exhibit 20: Standalone – expect turnaround in paste-PVC and custom manufacturing in FY25E

Standalone INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR (FY23-26E)
Custom manufacturing										
Revenue	667	887	1,264	1,693	2,620	3,287	3,287	5,916	8,579	37.7
Gross profit	367	496	792	880	1,258	1,643	1,479	3,076	4,461	39.5
GPM (%)	55.0	55.9	62.6	52.0	48.0	50.0	45.0	52.0	52.0	
Paste PVC										
Volume (te)	68,463	62,131	64,082	62,592	64,838	68,382	70,250	95,382	1,07,382	16.2
Prices (INR/kg)	86	89	98	119	156	110	79	87	92	(6.0)
Revenue	5,878	5,542	6,297	7,467	10,140	7,543	5,579	8,333	9,851	9.3
Gross profit (ex elimin)	1,787	1,706	2,608	4,151	4,300	1,385	1,024	2,767	3,145	31.5
GPM (%)	30.4	30.8	41.4	55.6	42.4	18.4	18.4	33.2	31.9	
Commodity										
Revenue	4,518	6,098	5,032	3,728	7,361	11,137	5,650	7,152	7,796	(11.2)
Gross profit	5,214	6,323	4,980	3,576	7,560	9,166	6,016	7,372	7,935	(4.7)
GPM (%)	115.4	103.7	99.0	95.9	102.7	82.3	106.5	103.1	101.8	
Standalone financial										
Revenue	11,063	12,527	12,593	12,887	20,121	21,967	14,516	21,401	26,225	6.1
Gross profit	7,368	8,525	8,379	8,606	13,118	12,195	8,519	13,215	15,541	8.4
GPM (%)	66.6	68.1	66.5	66.8	65.2	55.5	58.7	61.7	59.3	
Employee cost	769	778	828	771	772	998	1,108	1,274	1,402	12.0
Power cost	2,573	3,286	2,878	2,509	4,060	5,763	5,100	5,177	5,763	0.0
Others	1,163	1,290	1,534	1,415	2,010	2,375	2,451	2,564	2,681	4.1
Total expenses	4,504	5,354	5,240	4,695	6,842	9,137	8,660	9,015	9,846	2.5
EBITDA	2,864	3,172	3,140	3,911	6,275	3,058	(141)	4,200	5,695	23.0
EBITDA (%)	25.9	25.3	24.9	30.4	31.2	13.9	(1.0)	19.6	21.7	
PAT	888	1,872	987	436	3,795	1,456	(812)	2,112	3,175	29.7

Source: Company data, I-Sec research

Exhibit 21: Consolidated – EBITDA to ramp up from very low base in next two years

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E	CAGR (FY23-26E)
CCVL (S-PVC)										
Volume (te)	2,89,421	2,79,462	2,71,300	2,73,296	2,98,792	3,25,007	3,28,257	3,28,257	3,28,257	0.3
Prices (INR/kg)	69	73	69	91	130	92	74	81	85	(2.6)
Spreads (INR/kg)	17.2	15.7	13.2	29.8	29.0	15.7	12.5	19.0	20.0	8.3
Revenue	19,874	20,523	18,790	25,107	38,828	30,002	24,242	26,666	27,999	(2.3)
Gross profit	4,972	4,398	3,569	8,150	8,666	5,099	4,103	6,237	6,549	8.7
GPM (%)	25.0	21.4	19.0	32.5	22.3	17.0	16.9	23.4	23.4	
EBITDA	2,494	2,016	864	5,703	5,693	1,623	936	3,071	3,292	26.6
EBITDA (%)	12.5	9.8	4.6	22.7	14.7	5.4	3.9	11.5	11.8	
PAT	1,330	944	(977)	2,666	2,692	67	(416)	1,238	1,355	171.9
Consolidated										
Revenue	30,298	33,050	31,383	37,987	58,920	49,411	38,758	48,067	54,225	3.1
Gross profit	11,875	12,923	11,948	16,756	21,784	17,294	12,622	19,452	22,090	8.5
GPM (%)	39.2	39.1	38.1	44.1	37.0	35.0	32.6	40.5	40.7	
EBITDA	5,234	5,187	4,004	9,615	11,968	4,681	796	7,270	8,987	24.3
EBITDA (%)	17.3	15.7	12.8	25.3	20.3	9.5	2.1	15.1	16.6	
PAT	2,485	2,816	2,149	4,102	6,486	1,524	(1,228)	3,350	4,530	43.8
Adj. EPS (INR)	16	20	8	21	41	13	(8)	21	29	28.7

Source: Company data, I-Sec research

Exhibit 22: Balance sheet remains strong

INR mn	FY18	FY19	FY20	FY21	FY22	FY23	FY24E	FY25E	FY26E
Working capital									
Inventory	3,131	3,877	3,199	4,071	7,110	6,431	4,618	6,051	7,025
Trade receivable	602	719	502	739	1,898	1,426	681	2,114	3,557
Trade payable	9,603	13,609	13,973	16,561	18,783	18,615	12,362	14,271	15,297
Working capital	(5,870)	(9,014)	(10,272)	(11,751)	(9,774)	(10,758)	(7,062)	(6,106)	(4,715)
Days (WC)									
Inventory	38	43	37	39	44	48	43	46	47
Trade receivable	7	8	6	7	12	11	6	16	24
Trade payable	116	150	163	159	116	138	116	108	103
Net debt									
Borrowing	4,596	2,759	22,059	21,102	8,674	10,080	13,080	13,080	13,080
Less cash	(10,756)	(16,168)	(1,799)	(6,513)	(12,292)	(11,919)	(4,184)	(5,559)	(7,303)
Net debt	(6,160)	(13,409)	20,260	14,590	(3,618)	(1,839)	8,896	7,520	5,776
Cashflow									
Op-cashflow	4,449	13,940	3,206	10,764	9,010	3,554	(2,611)	5,488	6,280
less capex	(581)	(1,039)	421	(554)	(1,125)	(4,196)	(7,300)	(2,815)	(2,956)
FCF	3,868	12,900	3,627	10,210	7,885	(642)	(9,911)	2,673	3,324
Return ratios									
post-tax ROCE (%)	26.8	17.4	13.4	49.1	39.9	11.1	(1.9)	12.5	14.8
pre-tax ROIC (%)			14.4	45.2	86.4	21.6	(3.4)	19.7	24.2

Source: Company data, I-Sec research

Valuations**Exhibit 23: Estimates revision**

INR mn	Revised		Earlier		Change (%)	
	FY24E	FY25E	FY24E	FY25E	FY24E	FY25E
Revenue	38,758	48,067	42,023	54,716	(7.8)	(12.2)
Gross profit	12,622	19,452	13,234	21,060	(4.6)	(7.6)
GPM (%)	32.6	40.5	31.5	38.5		
EBITDA	796	7,270	1,380	8,619	(42.4)	(15.6)
EBITDA (%)	2.1	15.1	3.3	15.8		
PAT	(1,228)	3,350	(752)	4,265		(21.5)
EPS (INR)	(7.8)	21.2	(4.8)	27.0		(21.5)

Source: I-Sec research

Exhibit 24: SoTP-valuation

Business units (INR mn)	Methodology	Multiple (x)	FY26E
Custom manufacturing	EV/EBITDA	20.0	42,893
Other standalone biz	EV/EBITDA	8.0	28,406
S-PVC	EV/EBITDA	7.0	23,042
Enterprise value			94,341
Net debt			7,520
Equity value			86,820
No of outstanding shares (mn)			158
Equity value (INR /sh)			550

Source: I-Sec research

Exhibit 25: Implied valuation

	FY25E	FY26E
Target price (INR)	550	550
EPS	21	29
Implied PE (x)	26.0	19.2
Enterprise Value (INR mn)	94,341	92,597
EBITDA (INR mn)	7,270	8,987
Implied EV/EBITDA (x)	13.0	10.3

Source: I-Sec research

Exhibit 26: Shareholding pattern

%	Jun'23	Sep'23	Dec'23
Promoters	55.0	55.0	55.0
Institutional investors	38.1	38.5	38.6
MFs and others	24.3	24.8	25.4
FIs/Banks	-	-	-
Insurance	2.3	2.0	2.0
FIIIs	11.6	11.7	11.2
Others	6.9	6.5	6.4

Source: Bloomberg

Exhibit 27: Price chart



Source: Bloomberg

Financial Summary

Exhibit 28: Profit & Loss

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Net Sales	49,411	38,758	48,067	54,225
Operating Expenses	44,729	37,962	40,796	45,237
EBITDA	4,681	796	7,270	8,987
EBITDA Margin (%)	9.5	2.1	15.1	16.6
Depreciation & Amortization	1,420	1,532	1,917	1,987
EBIT	3,261	(736)	5,353	7,000
Interest expenditure	1,540	1,609	1,505	1,520
Other Non-operating Income	799	703	630	575
Recurring PBT	2,520	(1,642)	4,478	6,056
Profit / (Loss) from Associates	-	-	-	-
Less: Taxes	192	(414)	1,129	1,526
PAT	1,524	(1,228)	3,350	4,530
Less: Minority Interest	-	-	-	-
Extraordinaries (Net)	805	-	-	-
Net Income (Reported)	2,127	(1,228)	3,350	4,530
Net Income (Adjusted)	1,524	(1,228)	3,350	4,530

Source Company data, I-Sec research

Exhibit 29: Balance sheet

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Total Current Assets	21,457	10,387	15,245	19,952
of which cash & cash eqv.	11,919	4,102	5,689	7,751
Total Current Liabilities & Provisions	21,558	14,389	16,843	18,224
Net Current Assets	(101)	(4,002)	(1,598)	1,728
Investments	0	0	0	0
Net Fixed Assets	35,256	41,024	41,922	42,891
ROU Assets	622	622	622	622
Capital Work-in-Progress	4,018	4,018	4,018	4,018
Total Intangible Assets	-	-	-	-
Other assets	1,033	644	676	710
Deferred Tax Assets	-	-	-	-
Total Assets	58,368	52,677	58,464	64,174
Liabilities				
Borrowings	10,080	13,080	13,080	13,080
Deferred Tax Liability	7,167	7,167	7,167	7,167
Provisions	-	-	-	-
Other Liabilities	979	684	880	997
Equity Share Capital	791	791	791	791
Reserves & Surplus	17,451	16,223	19,361	23,573
Total Net Worth	18,585	17,356	20,495	24,707
Minority Interest	-	-	-	-
Total Liabilities	58,368	52,677	58,464	64,174

Source Company data, I-Sec research

Exhibit 30: Quarterly trend

(INR mn, year ending March)

	Mar-23	Jun-23	Sep-23	Dec-23
Net Sales	11,468	9,964	9,878	8,881
% growth (YoY)	(36.5)	(29.4)	(17.3)	(25.3)
EBITDA	974	(345)	460	(66)
Margin %	8.5	(3.5)	4.7	(0.7)
Other Income	309	180	372	127
Extraordinaries	-	-	-	-
Adjusted Net Profit	461	(640)	261	(894)

Source Company data, I-Sec research

Exhibit 31: Cashflow statement

(INR mn, year ending March)

	FY23A	FY24E	FY25E	FY26E
Operating Cashflow	3,677	1,209	6,142	7,461
Working Capital Changes	(123)	(3,820)	(654)	(1,181)
Capital Commitments	(4,196)	(7,300)	(2,815)	(2,956)
Free Cashflow	(642)	(9,911)	2,673	3,324
Other investing cashflow	2,024	703	630	575
Cashflow from Investing Activities	2,024	703	630	575
Issue of Share Capital	-	-	-	-
Interest Cost	-	-	-	-
Inc (Dec) in Borrowings	1,517	3,000	-	-
Dividend paid	-	-	(211)	(317)
Others	(1,741)	(1,609)	(1,505)	(1,520)
Cash flow from Financing Activities	(270)	1,391	(1,716)	(1,838)
Chg. in Cash & Bank balance	1,112	(7,817)	1,587	2,062
Closing cash & balance	11,110	4,102	5,689	7,751

Source Company data, I-Sec research

Exhibit 32: Key ratios

(Year ending March)

	FY23A	FY24E	FY25E	FY26E
Per Share Data (INR)				
Reported EPS	9.6	(7.8)	21.2	28.6
Adjusted EPS (Diluted)	13.5	(7.8)	21.2	28.6
Cash EPS	22.4	1.9	33.3	41.2
Dividend per share (DPS)	-	-	1.3	2.0
Book Value per share (BV)	117.5	109.8	129.6	156.3
Dividend Payout (%)	-	-	6.3	7.0
Growth (%)				
Net Sales	(16.1)	(21.6)	24.0	12.8
EBITDA	(60.9)	(83.0)	813.9	23.6
EPS (INR)	(67.2)	(157.7)	(372.8)	35.2
Valuation Ratios (x)				
P/E	46.0	(57.1)	20.9	15.5
P/CEPS	19.8	230.7	13.3	10.8
P/BV	3.8	4.0	3.4	2.8
EV / EBITDA	14.4	98.1	10.5	8.3
EV/SALES	1.4	2.0	1.6	1.4
Dividend Yield (%)	-	-	0.3	0.5
Operating Ratios				
Gross Profit Margins (%)	35.0	32.6	40.5	40.7
EBITDA Margins (%)	9.5	2.1	15.1	16.6
Effective Tax Rate (%)	7.6	25.2	25.2	25.2
Net Profit Margins (%)	3.1	(3.2)	7.0	8.4
NWC / Total Assets (%)	(33.4)	(21.7)	(18.4)	(14.0)
Net Debt / Equity (x)	(0.1)	0.5	0.4	0.2
Net Debt / EBITDA (x)	(0.4)	11.3	1.0	0.6
Profitability Ratios				
RoCE (%)	11.1	(1.9)	12.5	14.7
RoE (%)	8.6	(6.8)	17.7	20.0
RoIC (%)	21.6	(3.4)	19.7	24.2
Fixed Asset Turnover (x)	1.4	0.9	1.1	1.2
Inventory Turnover Days	47.5	43.5	46.0	47.3
Receivables Days	10.5	6.4	16.1	23.9
Payables Days	137.5	116.4	108.4	103.0

Source Company data, I-Sec research

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