

## Company Overview

Incorporated in 1985, Chemplast Sanmar Ltd is a leading specialty chemical manufacturer in India. The company is engaged in the manufacturing of specialty paste PVC resin, starting materials, and intermediates for agro-chemical, pharmaceuticals, agro-chemical, and fine chemical sectors. It also produces other types of chemicals such as Caustic Soda, Chlorochemicals, Hydrogen Peroxide, Refrigerant gas, and Industrial Salt. It has four manufacturing facilities, among which, 3 are situated at Mettur, Berigai, and Cuddalore in Tamil Nadu, and one is located in Puducherry at Karaikal.

## Objects of the issue

The IPO proceed will be used towards the following purposes;

- ⇒ Early redemption of NCDs issued by the company in full.
- ⇒ Meet general corporate purposes.

## Investment Rationale

### Well-positioned in a high-barrier industry

Chemplast-Sanmar Ltd. (CSL) is one of India's leading manufacturers of specialty paste PVC resin. It also the third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide, each in the South India region, on the basis of installed production capacity as of December 31, 2020 and one of the oldest manufacturers in the chloromethanes market in India. These products need to meet stringent technical performance requirements of their customers, making it capital, knowledge and time intensive. CSL has been able to deploy modern machinery and use it in an efficient manner after years of accumulated industrial know-how. Their custom manufacturing operation have even higher entry barriers, including customer validation and approvals, expectation from customers for process innovation and cost reduction, high quality standards and stringent specifications. CSL is able to leverage their chemistry process research and manufacturing capabilities to focus on providing custom made intermediates to end molecules that are in the early stages of their life cycles, which helps them be the initial suppliers for such products to the patent holders.

### Focus on sustainable and quality manufacturing processes

CSL has three manufacturing facilities in Tamil Nadu and one in Puducherry. Their manufacturing facilities are certified ISO 9001:2015 for quality management systems and ISO 45001:2018 for occupational health and safety management systems, to the extent required. They have installed zero discharge facilities at their manufacturing facilities for the treatment of all liquid effluents, wherein no treated liquid effluent from their manufacturing facilities is discharged on to the land or into any water body. Along with that, CSL has established desalination units at their Karaikal and Cuddalore Facilities. Their other facilities also have reed bed used for the treatment of sewage and waste water, rain water harvesting and ground water recharging capacities, and sewage treatment plants. To optimize energy conservation, they have installed variable frequency drive in coal based power plant boilers.

### Valuation and Outlook

Chemplast Sanmar Ltd. (CSL) is a the largest manufacturer of speciality PVC resins in India in terms of installed production capacity and is the 3rd largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide in South India. Pursuant to the CCVL Acquisition, it acquired 100.0% equity interest in CCVL that is the second-largest manufacturer of suspension PVC resin in India and the largest manufacturer in the South India region, on the basis of installed production capacity as of December 31, 2020 (Source: CRISIL Report). In addition to the above, CSL is a part of the SHL Chemicals group which is one of the most prominent corporate groups in South India. Further, it has a vertically integrated business model with a focus on quality manufacturing and highly experienced managerial team, which provide for further growth visibility. On the valuation front, at the upper price band, the company is valued at 20.8x P/E considering the diluted equity shares and FY21 annualized earnings. Taking into account the factors mentioned above, we give a "SUBSCRIBE" rating on this issue for the long term.

## Issue Details

Offer Period	10th August - 12th August, 2021
Price Band	INR.530 to INR.541
Bid Lot	27
Listing	BSE&NSE
Issue Size (no. of shares in mn)	71.2

Issue Size (INR. in bn)	38.5
Face Value	5

## Issue Structure

QIB	75%
Retail	10%
NIB	15%

BRLM	Axis Capital, ICICI Securities, Credit Suisse, IIFL Securities, Ambit Pvt Ltd., BOB Capital Markets, HDFC Bank Indusind Bank, Yes Securities
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Registrar	KFin Technologies Pvt. Ltd.
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Particulars	Pre Issue %	Post Issue %
Promoter & Promoter Group	98.81	54.99
Promoter Group	1.19	-
Public	-	45.01
<b>Total</b>	<b>100</b>	<b>100</b>

(Assuming issue subscribed at higher band)

Research Team - 022-61596407



## Income Statement (In mn)

Particulars	FY19	FY20	FY21
<b>Revenue</b>			
Revenue From Operations	12,543	12,577	37,987
<b>Total Revenue</b>	<b>12,543</b>	<b>12,577</b>	<b>37,987</b>
<b>Expenses</b>			
Raw Material Consumed	4,082	4,365	20,658
Employee Benefit Expenses	1,276	1,331	1,301
Changes in Inventories of Finished Goods and Work-In-Progress	(80)	(151)	263
Purchase of Stock in Trade	-	-	311
Other Expenses	4,554	4,412	6,006
<b>Total Operating Expenses</b>	<b>9,333</b>	<b>9,453</b>	<b>28,372</b>
<b>EBITDA</b>	<b>3,210</b>	<b>3,123</b>	<b>9,615</b>
Depreciation and Amortisation Expense	564	874	1,310
Other Income	124	79	164
<b>EBIT</b>	<b>2,771</b>	<b>2,328</b>	<b>8,469</b>
Finance Costs	483	955	4,334
Exceptional Item	-	-	(157)
Share in Profit/(Loss) of Joint Ventures	(354)	(657)	1,494
<b>PBT</b>	<b>1,934</b>	<b>717</b>	<b>5,472</b>
Current Tax	519	300	777
Deferred Tax Charge	230	(44)	593
Total Tax	<b>749</b>	<b>256</b>	<b>1,370</b>
<b>PAT</b>	<b>1,185</b>	<b>461</b>	<b>4,103</b>
<b>Diluted EPS</b>	<b>7.5</b>	<b>2.9</b>	<b>25.9</b>

Source: RHP, BP Equities Research

## Cash Flow Statement (In mn)

Particulars	FY19	FY20	FY21
Cash flow from operating activities	2,342	1,661	10,764
Cash flow from investing activities	(3,109)	(4,377)	21,516
Cash flow from financing activities	(33)	2,981	(30,167)
<b>Net increase/(decrease) in cash and cash equivalents</b>	<b>(800)</b>	<b>265</b>	<b>2,113</b>
<b>Cash and cash equivalents at the beginning of the period</b>	<b>1,288</b>	<b>488</b>	<b>922</b>
<b>Cash and cash equivalents at the end of the period</b>	<b>489</b>	<b>753</b>	<b>3,035</b>

Source: RHP, BP Equities Research



## Balance Sheet (In mn)

Particulars	FY19	FY20	FY21
<b>Liabilities</b>			
Share Capital	7,045	670	1,014
Other Equity	17,952	18,455	(4,511)
<b>Net Worth</b>	<b>24,998</b>	<b>19,125</b>	<b>(3,498)</b>
Long Term Borrowings	393	12,067	20,245
Deferred Tax Liabilities	-	-	-
Long-Term Provisions	-	-	-
Other Non Current Liabilities	5,704	5,605	8,131
<b>Total Non Current Liabilities</b>	<b>6,097</b>	<b>17,672</b>	<b>28,376</b>
Trade Payables	2,197	2,159	16,561
Current Tax Liability	472	222	393
Borrowings	1,534	477	-
Other Financial Liabilities	1,505	1,191	2,469
Lease Liabilities	-	-	-
Other Current Liabilities	1,213	228	559
Short Term Provisions	-	-	-
<b>Total Current Liabilities</b>	<b>6,920</b>	<b>4,278</b>	<b>19,982</b>
<b>Total Equity &amp; Liabilities</b>	<b>38,015</b>	<b>41,075</b>	<b>44,861</b>
<b>Assets</b>			
Property, Plant & Equipment	20,871	21,563	31,326
Capital Work in Progress	1,172	84	251
Right Use Of Assets	209	179	149
Other Intangible Assets			
Goodwill			
Financial Assets	164	152	243
Other Tax Assets	182	18	43
Deferred Tax Assets (net)			
Other Non-Current Assets	63	14,652	102
<b>Total Non current assets</b>	<b>22,661</b>	<b>36,649</b>	<b>32,114</b>
Investment	11,587	-	-
Trade Receivables	669	482	739
Cash and Cash Equivalents	488	753	3,035
Other Current Assets	283	191	532
Bank Balances	34	374	3,478
Other Financial Assets	288	808	892
Inventories	2,003	1,818	4,071
<b>Total Current Asset</b>	<b>15,354</b>	<b>4,426</b>	<b>12,747</b>
Net Current Assets	8,433	149	(7,235)
<b>Total Assets</b>	<b>38,015</b>	<b>41,075</b>	<b>44,861</b>

Source: RHP, BP Equities Research

### Key Risks

- ⇒ *The extent to which the coronavirus disease (COVID 19) affects their business, results of operations and financial condition will depend on future developments, which are uncertain and cannot be predicted. The company rely on third-party service providers for many aspects of their business, and any failure to maintain these relationships could harm their business .*
- ⇒ *The company does not own premises for our registered office. Further, we operate our manufacturing facility on parcels that are held by us on a leasehold as well as a free hold basis. In addition, our lease for the Vedaranyam Salt Field has expired.*
- ⇒ *Their intellectual property rights may not be adequately protected against third party infringement.*

**Disclaimer Appendix****Analyst (s) holding in the Stock : Nil****Analyst (s) Certification:**

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