

## CHEMPLAST SANMAR LIMITED

Chemplast Sanmar Ltd. (CSL) is a specialty chemicals manufacturer in India with focus on specialty paste PVC resin and custom manufacturing materials for pharmaceutical, agro-chemical and fine chemicals sectors. CSL is one of India's leading manufacturers of specialty paste PVC resin, third largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide in the South India region on basis on installed capacity as on 31Dec 2020. CSL is a part of the SHL Chemicals Group, which in turn is a constituent of the Sanmar Group, one among the most prominent corporate groups in South India region. Fairfax India Holdings Corporation ("Fairfax"), a well-known international investor led by Prem Watsa, based in Canada, has invested, through FIH Mauritius Investments Ltd, in the SHL Chemicals Group since 2016.

**Positives:** (a) Well-positioned to capture favorable industry dynamics (b) Leadership Position in an Industry with High Barriers to Entry (c) Vertically integrated operations (d) Quality Manufacturing Facilities with a strong focus on sustainability. (e) Quality Manufacturing Facilities with a strong focus on sustainability.

**Investment concerns:** (a) Pandemic like Covid-19 could affect company's business, operations and financial conditions. (b) Company has incurred significant indebtedness and lenders have imposed certain restrictive conditions. (c) Its intellectual property rights may not be adequately protected against third party infringement.

**Outlook & Valuation:** While we believe that the India specialty chemical industry is going to be one of the biggest beneficiaries of shifting of supply chains post the Covid-19 pandemic we have concerns over the company's high debt and negative net worth. At the higher end of the price band, the stock will be trading at P/E multiple of 17.7x FY21 EPS which is at a discount to other chemical players. However, we have a **NEUTRAL** recommendation on the IPO given our concerns due to high debt on books and negative net worth.

### Key Financials

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Net Sales</b>	1,254.3	1,257.7	3,798.7
% chg	-	0.3	202.0
<b>Net Profit</b>	118.5	46.1	410.2
% chg	-	-61.1	789.4
EBITDA (%)	25.6	24.8	25.3
<b>EPS (Rs)</b>	4.5	2.1	30.6
P/E (x)	119.4	263.9	17.7
P/BV (x)	5.1	8.6	(3.9)
ROE (%)	4.7	2.4	-
ROCE (%)	8.1	6.0	33.4
EV/EBITDA	27.1	31.2	10.7
EV/Sales	6.9	7.7	2.7

Source: Company, Angel Research.

Note: Valuation ratios at upper price band.

## NEUTRAL

Issue Open: Aug 10, 2021

Issue Close: Aug 12, 2021

### Issue Details

Face Value: ₹5

Present Eq. Paid up Capital: ₹67 cr

Offer for Sale: ₹2,550 cr

Fresh issue: ₹1,300 cr

Post Eq. Paid up Capital: ₹79.1 cr

Issue size (amount): ₹3,850 cr

Price Band: ₹530-541

Lot Size: 27 shares and in multiple thereafter

Post-issue mkt. cap: \* ₹8,406 cr - \*\* ₹8,554 cr

Promoters holding Pre-Issue: 100%

Promoters holding Post-Issue: 55%

\* Calculated on lower price band

\*\* Calculated on upper price band

### Book Building

QIBs	75% of issue
Non-Institutional	15% of issue
Retail	10% of issue

### Post Issue Shareholding Pattern

Promoters	55.0%
Others	45.0%

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## Company background

Company was originally incorporated on March 13, 1985 as 'Urethanes India Limited' ("UIL"). Chemicals and Plastics India Limited ("CPIL"), was amalgamated with UIL on October 1, 1991. Thereafter, based on a resolution of Shareholders name was changed to "Chemicals and Plastics India Limited". And later changed to "Chemplast Sanmar Limited". Company is into specialty chemicals manufacturer with focus on specialty paste PVC resin and custom manufacturing of starting materials and intermediates for pharmaceutical, agro-chemical and fine chemicals sectors. It holds 100% stake in Chemplast Cuddalore Vinyls Limited ("CCVL") which 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. It has four manufacturing facilities, of which three are located in Tamil Nadu at Mettur ("Mettur Facility"), Berigai ("Berigai Facility") and Cuddalore ("Cuddalore Facility"), and one is located in Puducherry at Karaikal ("Karaikal Facility").

## Issue details

The issue comprises of OFS of upto ₹2,550 crore and Fresh issue of ₹1,300 Cr.

### Pre and post IPO shareholding pattern

No of shares	(Pre-issue)	%	(Post-issue)	%
Promoter & Promoter Gp.	134,080,000	100.0%	86,945,065	55.0%
Public	0	0.0%	71,164,510	45.0%
<b>Total</b>	<b>134,080,000</b>	<b>100%</b>	<b>158,109,575</b>	<b>100.0%</b>

Source: Company, Angel Research & RHP.

## Objectives of the Offer

- Early redemption of NCDs issued by the company in full.
- General corporate purposes.

## Key Management Personnel

**Vijay Sankar** is the Chairman and Non – executive Director of the Company. He holds a bachelors' degree in commerce from the University of Madras and a masters' degree in management from J. L. Kellogg Graduate School of Management, Northwestern University. He is an industrialist and has several years of experience in managing several businesses.

**Ramkumar Shankar** is the Managing Director of the Company. He holds a bachelors' degree in commerce from the University of Madras and has completed an accelerated management programme from the Indian School of Business. He is also a qualified chartered accountant and a cost accountant. He has several years of experience in the chloro-vinyls business.

**Chandran Ratnaswami** is a Non – executive Director of the Company. He holds a bachelors' degree in technology (civil engineering) from the Indian Institute of Technology, Madras and a masters' degree in business administration from University of Toronto. He is the chief executive officer of

Fairfax India Holdings Corporation, a company listed on the Toronto Stock Exchange, and a managing director of Hamblin Watsa Investment Counsel Limited.

**Amarnath Ananthanarayanan** is a Non – Executive Director of the Company. He holds a bachelors’ degree in economics from St. Stephen’s College, Delhi and a masters’ degree in arts (economics) from the University of Delhi. He has several years of experience across various sectors such as financial services, manufacturing, and academics. He is a recipient of Udyog Rattan Award conferred by The Institute of Economic Studies.

### Exhibit 1: Consolidated Profit & Loss Statement

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>Total operating income</b>	1,254.3	1,257.7	3,798.7
% chg	-	0.3	202.0
<b>Total Expenditure</b>	933.3	945.3	2,837.3
Cost of materials consumed	408.15	436.52	2,065.76
Purchase of traded goods	-	-	31.08
Changes in inventories	-8.01	-15.15	26.28
Employees' benefit expense	77.80	82.81	113.58
Other expenses	455.36	441.15	600.56
<b>EBITDA</b>	321.0	312.3	961.5
% chg	-	-2.7	207.8
(% of Net Sales)	25.6	24.8	25.3
Depreciation & Amortisation	56.4	87.4	131.0
<b>EBIT</b>	264.7	225.0	830.5
% chg	-	-15.0	269.2
(% of Net Sales)	21.1	17.9	21.9
Finance costs	48.3	95.5	433.4
Other income	12.4	7.9	16.4
(% of Sales)	1.0	0.6	0.4
<b>Recurring PBT</b>	228.8	137.4	413.5
% chg	-	-40.0	201.0
Share of reinstated	-35.4	-65.7	149.4
Exceptional item	-	-	-15.7
Tax	-74.9	-25.6	-136.9
<b>PAT (reported)</b>	118.5	46.1	410.2
% chg	-	-61.1	789.4
(% of Net Sales)	9.4	3.7	10.8
<b>Basic &amp; Fully Diluted EPS (Rs)</b>	4.5	2.1	30.6

Source: Company, Angel Research

**Exhibit 2: Consolidated Balance Sheet**

Y/E March (₹ cr)	FY2019	FY2020	FY2021
<b>SOURCES OF FUNDS</b>			
Equity Share Capital	67.0	67.0	67.0
Instruments entirely equity in nature	637.5	-	34.3
Other equity (Retained Earning)	1,795.2	1,845.5	-451.1
<b>Shareholders' Funds</b>	<b>2,499.8</b>	<b>1,912.5</b>	<b>-349.8</b>
<b>Total Loans</b>	<b>192.7</b>	<b>1,254.4</b>	<b>2,024.5</b>
Other liabilities	570.4	560.6	813.1
<b>Total Liabilities</b>	<b>3,262.9</b>	<b>3,727.5</b>	<b>2,487.9</b>
<b>APPLICATION OF FUNDS</b>			
Property, plant and equipment	2,087.1	2,156.3	3,132.6
Capital work-in-progress	117.2	8.4	25.1
Right-of-use assets	20.9	17.9	14.9
Investments in Joint Venture and Associate	-	1,457.5	-
Current Assets	1,535.4	442.6	1,274.7
Inventories	200.3	181.8	407.1
Investments in Joint Venture	1,158.7	-	-
Trade Receivables	66.9	48.2	73.9
Cash and cash equivalents	48.8	75.3	303.5
Derivative Assets	-	7.4	-
Other Bank balances	3.4	37.4	347.8
Other Financial Assets	28.9	80.8	89.2
Other current assets	28.3	11.6	33.3
Assets classified as held for sale	-	-	19.9
Current Liability	538.7	380.0	1,998.2
<b>Net Current Assets</b>	<b>996.8</b>	<b>62.6</b>	<b>-723.5</b>
Other Non-Current Asset	40.9	24.8	38.8
<b>Total Assets</b>	<b>3,262.9</b>	<b>3,727.5</b>	<b>2,487.9</b>

Source: Company, Angel Research

**Exhibit 3: Consolidated Cash flows**

Y/E March (₹cr)	FY2019	FY2020	FY2021
Operating profit before working capital changes	328.5	316.7	1,089.0
Net changes in working capital	-39.1	-111.9	48.0
Cash generated from operations	289.4	204.7	1,136.9
Direct taxes paid (net of refunds)	-55.2	-38.7	-60.5
<b>Net cash flow (used in)/from operating activities</b>	<b>234.2</b>	<b>166.1</b>	<b>1,076.4</b>
Investments in Joint Venture (net)	-261.1	125.3	1,073.5
Redemption from preference shares	-	-482.2	1,682.2
Others	-49.8	-80.7	-604.1
<b>Cash Flow from Investing</b>	<b>-310.9</b>	<b>-437.7</b>	<b>2,151.6</b>
Proceeds from non-convertible debentures	-	1,270.0	-
Proceeds from Long term borrowings	-	-	200.0
Repayment of long-term borrowings	-58.1	-99.2	-254.4
(Repayment) from short-term borrowings (net)	104.1	-108.6	-112.7
Redemption of instruments	-	-637.5	-2,455.3
Payment of lease liability	-2.2	-4.5	-4.6
Interest and finance charges paid	-47.1	-122.1	-389.6
<b>Cash Flow from Financing</b>	<b>-3.3</b>	<b>298.1</b>	<b>-3,016.7</b>
Inc./(Dec.) in Cash	-80.0	26.5	211.3
<b>Opening Cash balances</b>	<b>153.2</b>	<b>48.8</b>	<b>75.3</b>
<b>Cash and cash equivalents taken over/ (transferred)</b>	<b>-24.4</b>	<b>0.0</b>	<b>16.8</b>
<b>Closing Cash balances</b>	<b>48.8</b>	<b>75.3</b>	<b>303.5</b>

Source: Company, Angel Research

**Key Ratios**

Y/E March	FY2019	FY2020	FY2021
<b>Valuation Ratio (x)</b>			
P/E (on FDEPS)	119.4	263.9	17.7
P/BV	5.1	8.6	(3.9)
EV/Sales	6.9	7.7	2.7
EV/EBITDA	27.1	31.2	10.7
<b>Per Share Data (Rs)</b>			
EPS (Basic)	4.5	2.1	30.6
EPS (fully diluted)	4.5	2.1	30.6
Book Value	105.3	63.1	(139.2)
<b>Returns (%)</b>			
ROE	4.7	2.4	-
ROCE	8.1	6.0	33.4
<b>Turnover ratios (x)</b>			
Receivables (days)	19.5	14.0	7.1
Inventory (days)	58.3	52.8	39.1
Payables (days)	63.9	62.7	159.1
Working capital cycle (days)	13.8	4.1	(112.9)

Source: Company, Angel Research

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