



**SMC Ranking**

★ ★ ☆ ☆ ☆ (2/5)

**Issue Highlights**

Industry	Specialty Chemical Manufacturer
Offer for sale (Shares)	47,134,935
Fresh Issue (Shares)	24,029,575
<b>Net Offer to the Public</b>	<b>71,164,510</b>
Issue Size (Rs. Cr.)	3771-3850
Price Band (Rs.)	530-541
Offer Date	10-Aug-21
Close Date	12-Aug-21
Face Value	5
Lot Size	27

**Issue Composition**

	In shares
Total Issue for Sale	71,164,510
QIB	53,373,383
NIB	10,674,677
Retail	7,116,451

**Shareholding Pattern (%)**

Particulars	Pre-issue	Post-issue
Promoters & promoters group	100.00%	54.99%
QIB	0.00%	33.76%
NIB	0.00%	6.75%
Retail	0.00%	4.50%
<b>Total</b>	<b>100.00%</b>	<b>100.00%</b>

\*calculated on the upper price band

**Objects of the Issue**

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

**Book Running Lead Manager**

- ICICI Securities Limited
- Axis Capital Limited
- Credit Suisse Securities (India) Private Limited
- IIFL Securities Limited
- Ambit Private Limited
- BOB Capital Markets Limited
- HDFC Bank Limited
- IndusInd Bank Limited
- YES Securities (India) Limited

**Name of the registrar**

- Kfin Technologies Private Limited

**About the company**

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.

**Strength**

**Well-positioned to capture favorable industry dynamics:** The company business benefits from favorable underlying market drivers, both in terms of demand and supply. Given that it manufactures significant portion of its EDC and all of its VCM requirements, the intermediates required for manufacturing specialty paste PVC resin, in-house, its reliance on external suppliers reduces, thereby helping it maintain a steady production stream of specialty paste PVC resin. CSL is the largest manufacturer of specialty paste PVC resin in India, on the basis of installed production capacity as of December 31, 2020, and catered to 45% and 44% of the demand for specialty paste PVC resin in India in Financial Years 2020 and 2019, respectively, with 82.0% and 84.0% market share of the specialty paste PVC resin manufactured and sold in India, respectively. The company believes that it is well-positioned to benefit from the industry growth given that the chemicals industry is knowledge intensive, involves complex chemistries and is subject to high quality standards and stringent impurity specifications for processes and product capabilities.

**Leadership Position in an Industry with High Barriers to Entry:** CSL is a specialty chemicals manufacturer in India with focus on specialty paste PVC resin and custom manufacturing of starting materials and intermediates for pharmaceutical, agro-chemical and fine chemicals sectors. CSL is one of India's leading manufacturers of specialty paste PVC resin, on the basis of installed production capacity as of December 31, 2020. In addition, CSL is 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. The company believes that success in the chemicals markets is based on its ability to compete successfully in a technologically intensive industry, as well as its capability to identify, develop and improve the performance of specialty products which meet the stringent technical performance requirements of its customers. In custom manufacturing, it leverage its 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.

**Vertically integrated operations:** CSL has vertically-integrated operations for manufacturing of its products. Due to its internal manufacturing of EDC, VCM and chlorine, the intermediates required for the manufacturing of its products, it reduces its reliance on external suppliers of these raw materials, thereby helping to maintain a steady production stream. For the Financial Years 2021, 2020 and 2019, it utilized Rs. 180.94 Crore, Rs. 101.98 Crore million and Rs. 59.62 Crore of raw materials that were manufactured by the

company, constituting 14% (3% on a consolidated basis), 23% and 44% of its total raw materials consumed, respectively. As it produces EDC, VCM, chlorine and hydrogen that is used internally at its Mettur and Karaikal Facilities, it is able to lower its costs of raw materials and achieve savings on corresponding transportation costs. As the company produces EDC, VCM, chlorine and hydrogen that is used internally at its Mettur and Karaikal Facilities, it is able to lower its costs of raw materials and achieve savings on corresponding transportation costs. Moreover, its integrated manufacturing facilities allow it to produce a broad range of products across the manufacturing chain.

**Quality Manufacturing Facilities with a strong focus on sustainability:** It has four manufacturing facilities, of which three are located in Tamil Nadu and one is located in Puducherry. It believes quality is a key differentiator in its business and has made strong efforts to adopt uniform manufacturing standards across all its facilities and to achieve standardized quality for all of its products. It also has a strong focus on sustainability in all aspects of its operations. It has established desalination units at its Karaikal and Cuddalore Facilities, and have installed zero discharge facilities at its manufacturing facilities for the treatment of all liquid effluents, wherein no treated liquid effluent from its manufacturing operations at its manufacturing facilities is discharged on to the land or into any water body.

**Operational excellence:** It has incurred significant capital expenditure to develop the specialty paste PVC resin manufacturing facility and intend to further invest Rs. 256 crore by Financial Year 2024 to further enhance its manufacturing capacity. Further, it had invested Rs. 113 Crore in Financial Year 2020 to purchase plant, machinery and technology for its hydrogen peroxide plant. It believes these investments position it well to capture future market growth and its commitment to operational excellence would allow it to remain an industry leader.

## Strategy

**Focus on developing and improving its product portfolio:** The company continues to seek to develop or improve products and processes to meet demands of its existing customers, to further enhance the performance of its specialty products and to respond to increasing compliance requirements under the environmental regulations. It also believes that specialty products have high barriers to entry and as such provide better operating margins. As a result, it also plans to leverage its strong process chemistry and engineering skills to perform custom manufacturing for a range of multinational innovator companies and cater to customers across new industry verticals and in new geographies to grow its business.

**Expanding its production capacities:** The company is proposing to expand its operations by (i) increasing the installed production capacity of specialty paste PVC resin by 35 kt; (ii) setting up a multipurpose facility with two blocks for its custom manufacturing operations; and (iii) increasing the installed production capacity of suspension PVC resin by 31 kt by de-bottlenecking the suspension PVC resin plant. It also intends to improve its operational efficiencies in its manufacturing process at the Karaikal Facility by de-bottlenecking the caustic soda plant. To minimize any market disruption from this additional production capacity, these expansions have been well planned, and will be rolled out gradually according to its strategic business plan between Financial Years 2022 and 2025. The company has committed capital expenditure outlay of Rs. 619.50 crore for these expansion activities.

**Improving financial performance through focus on operational efficiencies:** It is committed to prudent balance sheet management and maximizing its free cash flow through its continued disciplined approach to financial management. In particular, it is focused on managing its working capital more efficiently, which assists in freeing up additional capital to support the growth of the business. Its focus on maximizing free cash flow should enable it to reduce its overall indebtedness and improve its credit metrics. Currently, it expects to use up to Rs. 1238.25 Crore of the Net Proceeds from the Offer to repay existing indebtedness.

### Risk factors

- The company has incurred significant indebtedness and its lenders have imposed certain restrictive conditions on them under financing arrangements.
- 100% of the share capital of CCVL, which is held by its company, is pledged in favor of HDFC.
- In the past, the company has entered into related party transactions and will continue to do so in the future.
- Its manufacturing facilities are concentrated in Tamil Nadu and Puducherry.

### Peer comparison

Co_Name	Total Income	PAT	EPS	P/E	P/BV	BV	FV	Price	Mcap
SRF	8295.40	1197.94	239.03	37.25	7.70	1157.12	10	8904.90	52757.26
Finolex Inds.	3462.82	737.79	13.32	13.07	3.44	50.59	2	174.05	10799.40
P I Industries	4577.00	738.30	51.41	61.19	8.93	352.12	1	3145.95	47729.76
Navin Fluo.Intl.	1179.39	257.52	49.95	73.34	11.10	329.98	2	3663.25	18139.01
Chemplast Sanmar Limited	3798.73	410.24	30.60	20.85	9.00	60.10	5	541.00	8553.73

### Valuation

Considering the P/E valuation, on the upper end of the price band of Rs.541, the stock is priced at pre issue P/E of 17.68x on FY21 EPS of Rs. 30.60. Post issue, the stock is priced at a P/E of 20.85x on its EPS of Rs. 25.95. Looking at the P/B ratio at Rs. 541, book value is negative during FY21, Pre issue but on the post issue book value of Rs. 60.10 the P/B comes out to 9.00x.

On the lower end of the price band of Rs.530 the stock is priced at pre issue P/E of 17.32x on FY21 EPS of Rs. 30.360. Post issue, the stock is priced at a P/E of 20.43x on its EPS of Rs. 25.95. Looking at the P/B ratio at Rs.530, book value is negative during FY21, Pre issue but on the post issue book value of Rs. 60.10 the P/B comes out to 8.82x.

### Industry overview

The specialty paste PVC resin market size in India was at 143 kilo tons per annum (“KTPA”) in financial year 2020. The market has been growing at a compound annual growth rate (“CAGR”) of 3% between financial years 2015 and 2020, driven by growth in the leather cloth industry, which contributes to 78% of the demand. Total production of specialty paste PVC resin in India in financial year 2020 stood at 78 KTPA against a demand of 143 KTPA. Hence, 45% of the demand was met through imports. Demand is expected to grow 5-7% CAGR between financial years 2020 and 2025 to 182 KT. With the economy reviving in financial year 2022, we expect demand from various end-user industries to recover. As a result, specialty paste PVC resin demand is expected to rebound 15-17% on-year in financial year 2022, from a sharp drop this financial year. Moreover, demand growth is likely to remain healthy at 6-8% CAGR between financial years 2022 and 2025.

### Outlook

CSL is the third-largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide 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. The management of the company believes that it is well-positioned to benefit from the industry growth given the chemicals industry is knowledge-intensive, involves complex chemistries, is subject to high-quality standards and stringent impurity specifications for processes and product capabilities, and is based on complex products that are difficult to replicate. Meanwhile, the Company has incurred significant indebtedness and its lenders have imposed certain restrictive conditions on them under financing arrangements. However, 100% of the share capital of CCVL, which is held by its company, is pledged in favor of HDFC. A long term investor may opt the issue.

**An Indicative timetable in respect of the Issue is set out below:**

<b>EVENT</b>	<b>INDICATIVE DATE (On or about)</b>
Bid/Offer Opens Date	August 10, 2021
Bid/Offer Closing Date	August 12, 2021
Finalisation of Basis of Allotment with the Designated Stock Exchange	On or about August 18, 2021
Initiation of refunds (if any, for Anchor Investors)/unblocking of funds from ASBA Account	On or about August 20, 2021
Credit of Equity Shares to depository accounts of Allottees	On or about August 23, 2021
Commencement of trading of the Equity Shares on the Stock Exchanges	On or about August 24, 2021

**Consolidated Financials**

**Profit & Loss**

Rs. in Cr.

<b>Particulars</b>	<b>Period ended 31-Mar-21 (12 Months)</b>	<b>Period ended 31-Mar-20 (12 Months)</b>	<b>Period ended 31-Mar-19 (12 Months)</b>
Revenue from operations	3798.73	1257.66	1257.66
Total expenditure	2837.26	945.34	933.30
Operating Profit	961.46	312.32	324.36
OPM%	25.31	24.83	25.79
Other Income	16.38	7.85	12.44
PBDIT	977.84	320.17	336.79
Depreciation	130.98	87.36	56.38
PBIT	846.86	232.81	280.41
Interest	433.36	95.46	48.28
PBT	413.50	137.36	232.14
Share of profit & profit on sale	149.38	-65.65	-35.42
Restated Profit before tax and exceptional items	562.88	71.70	196.72
Exceptional items	-15.68	0.00	0.00
Restated Profit before tax	547.19	71.70	196.72
tax	136.95	25.58	74.94
Profit After Tax	410.24	46.12	121.78

**Balance sheet is on next page**

## Balance Sheet

Rs. in Cr.

Particulars	As on 31-Mar-21	As on 31-Mar-20	As on 31-Mar-19
<b>Non-current assets</b>			
Property, plant and equipment	3132.58	2156.32	2087.11
Capital work-in-progress	25.08	8.38	117.24
Right-of-use assets	14.92	17.90	20.88
Investments in Joint Venture and Associate	0.00	1457.50	0.00
<b>Financial Assets</b>			
Investments	0.04	0.04	0.04
Other financial assets	24.29	15.18	16.33
Other non-current assets	10.15	7.76	6.31
Non-Current tax assets	4.33	1.82	18.21
<b>Total non-current assets</b>	<b>3211.39</b>	<b>3664.90</b>	<b>2266.12</b>
<b>Current assets</b>			
Inventories	407.09	181.83	200.32
Investments in Joint Venture	0.00	0.00	1158.75
<b>Financial Assets</b>			
Trade Receivables	73.93	48.20	66.90
Cash and cash equivalents	303.49	75.35	48.85
Derivative Assets	0.00	7.45	0.00
Other Bank balances	347.77	37.37	3.40
Other Financial Assets	89.22	80.83	28.89
Other current assets	33.32	11.63	28.34
Assets classified as held for sale 10.2	19.89	0.00	0.00
<b>Total current assets</b>	<b>1274.71</b>	<b>442.64</b>	<b>1535.44</b>
<b>Total Assets</b>	<b>4486.09</b>	<b>4107.54</b>	<b>3801.56</b>
<b>Non-current liabilities</b>			
<b>Financial liabilities</b>			
Borrowings	2024.55	1206.68	39.35
Other Financial Liabilities	75.88	70.47	78.48
Deferred Tax Liabilities (Net)	719.85	484.53	486.73
Other non-current liabilities	17.36	5.57	5.16
<b>Total non-current liabilities</b>	<b>2837.65</b>	<b>1767.24</b>	<b>609.73</b>
<b>Current liabilities</b>			
<b>Financial liabilities</b>			
Borrowings	0.00	47.74	153.38
<b>Trade payables</b>			
Total outstanding dues of micro enterprises and small enterprises	6.77	2.20	0.00
Total outstanding dues of creditors other than micro enterprises and small enterprises	1649.38	213.76	219.73
Derivative liabilities	15.65	0.00	12.13
Other financial liabilities	246.93	119.14	150.46
Other current liabilities	40.21	22.80	109.16
Current Tax Liabilities	39.28	22.15	47.19
<b>Total current liabilities</b>	<b>1998.22</b>	<b>427.79</b>	<b>692.05</b>
<b>Total</b>	<b>4835.86</b>	<b>2195.02</b>	<b>1301.78</b>
<b>NET Worth</b>	<b>-349.77</b>	<b>1912.52</b>	<b>2499.78</b>
Net worth represented by:			
Share capital	67.04	67.04	67.04
Instruments entirely in the nature of equity	34.32	0.00	637.50
Other Equity	-451.13	1845.48	1795.24
<b>Net Worth</b>	<b>-349.77</b>	<b>1912.52</b>	<b>2499.78</b>

## RANKING METHODOLOGY

WEAK	★
NEUTRAL	★★
FAIR	★★★
GOOD	★★★★
EXCELLENT	★★★★★

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