

Only Anti-Dumping Duty can save from current dumping scenario, Custom Manufacturing taking longer to execute

CMP: INR 484

Rating: Buy

Target Price: INR 603

Stock Info

BSE	543336
NSE	CHEMPLASTS
Bloomberg	CHEMPLAST:IN
Sector	Chemicals
Face Value (INR)	5
Equity Capital (INR Mn)	791
Mkt Cap (INR Bn)	76.55
52w H/L (INR)	634/403
Avg Yearly Volume (in 000')	270

Shareholding Pattern %

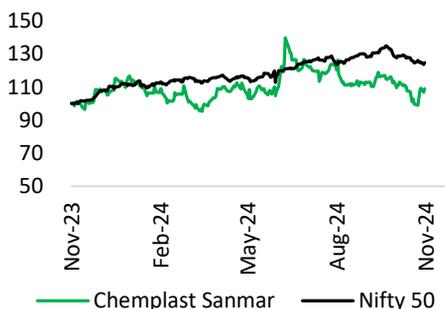
(As on , 2024)

Promoters	54.99
FII's	13.42
DII's	25.75
Public & Others	5.85

Stock Performance (%) 1m 6m 12m

Chemplast Sanmar	-3.8%	10.8%	16.9%
NIFTY	-0.8%	11.0%	23.2%

Chemplast Sanmar vs Nifty 50



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Chemplast Sanmar Ltd. reported Net Loss of INR 313 mn in Q2FY25 against Net profits of INR 239 mn in Q1FY25 and INR 261 mn in Q2FY25. The EBITDA came at INR 258 mn against INR 1,241 mn of EBITDA in Q1FY25. The revenue of the Company got impacted due to the excessive dumping causing prices to follow downtrend with revenue of INR 9,928 mn, down 13.3% QoQ / up 0.5% YoY. The Management attributed the losses to the excessive dumping of Suspension PVC by Chinese suppliers and Paste PVC dumping by European Union suppliers despite the Provisional Anti Dumping Duty imposed in June 2024. The prices of PVC was followed in its downward trajectory with the feedstock VCM prices also lower during the Q2FY25. The Company's Custom Manufacturing capex Phase 1 has been ramping up while the Phase 2 is expected to commission in the current Q3FY25. The Company has signed their 6th Letter of Intent over the last 2 years covering the next 5 years of manufacturing. The Company saw a volume growth of 13% YoY in the Specialities segment on account of the increased capacity by 41,000 tonnes done in Q4FY24.

CMC segment to drive growth and pull the margins up while PVC segment will drive the medium term growth but require policy support and anti dumping duties

The PVC prices were followed downward with the Paste PVC resin prices

Revenue for Q2FY25 came at INR 9,928 mn (down 13.3% QoQ / up 0.5% YoY). The sales were impacted as volumes grew by 6% only with prices falling during Q2FY25. EBITDA came at INR 258 mn (against INR 1,241 mn in Q1FY25 and EBITDA of INR 460 mn in Q2FY24). EBITDA Margins stood at 2.6% in Q2FY25 (down 824 bps QoQ / down 205 bps YoY). Net Loss reported was at INR 313 mn (against Net Profits of INR 239 mn in Q1FY25 & INR 261 mn in Q2FY24).

Previous year's Capex in both Specialty paste PVC and CMC segment will drive future growth and improve margins

The Company successfully commissioned 41,000 tonnes Paste PVC expansion project during Q4FY24. This increased capacity is allowing the growth in the productions volume growth for the company. The Company expects the Phase 2 expansion project of CMC to complete in the Q3FY25. The Company has recently signed their 6th LOI with an agrochemical innovator for an advance intermediate for a duration of 5 years.

PVC prices came down due to excessive dumping

During Q2FY24, the Paste PVC prices were lower against previous quarter's price levels, and the Management explains that this was due to the Paste PVC demand growth of 11% YoY in the Indian markets while the other markets in other geographies are witnessing demand downfall. We expect the Indian Government to extend the Anti Dumping Duties on PVC product imports in the coming months, in order to safeguard the domestic PVC producers.

Outlook and Valuation:

Custom Manufacturing chemicals segment has been expanding sequentially and is expected to complete by Q3FY25 which the Company had guided to be completed in Q2FY25 earlier. As PVC prices remain at lower levels, we don't see immediate respite for Specialty Paste PVC segment without ADD imposed by Government. We maintain our "BUY" rating with a reduced Target Price of INR 603 per share based on SOTP with margin estimates lowered for the Specialities, Suspension and Non-Speciality Chemicals (earlier Buy rating, TP INR 673).

Financial Performance:

Summary	FY24	FY25E	FY26E	FY27E
Net Sales	39,230	47,102	54,203	62,936
EBIDTA	258	5,618	8,223	12,358
Net Profit	-1,584	772	2,585	6,156
Diluted EPS	-10.02	43.58	61.15	67.27
P/E (x)	-55.99	12.87	9.17	8.34
EV/EBIDTA (x)	357.90	15.66	9.15	5.07
P/BV (x)	5.22	3.71	2.64	2.01
ROE (%)	-9.32	28.84	28.81	24.07
Debt/Equity (x)	0.91	0.39	0.28	0.22

Particulars (INR Mns)	Q2FY25	Q1FY25	Q2FY24	QoQ	YoY
Revenue from operations	9,928	11,449	9,878	-13.3%	0.5%
COGS	6,241	6,846	6,563	-8.8%	-4.9%
Gross Profit	3,686	4,603	3,315	-19.9%	11.2%
Gross Profit Margins	37.1%	40.2%	33.6%	-307bps	357bps
Expenses					
Employee Benefits Expenses	662	583	390	13.4%	69.5%
Other Expenses	2,767	2,779	2,465	-0.4%	12.2%
EBITDA	258	1,241	460	-79.2%	-43.9%
EBITDA Margins	2.6%	10.8%	4.7%	-824bps	-205bps
Other Income	109	115	372	-5.7%	-70.9%
EBITDA (incl. OI)	367	1,356	832	-73.0%	-55.9%
EBITDA Margins	3.7%	11.8%	8.4%	-815bps	-473bps
Depreciation	453	447	353	1.3%	28.2%
EBIT	-87	909	479	-109.5%	-118.1%
EBIT Margins	-0.9%	7.9%	4.8%	-881bps	-572bps
Finance Cost	568	587	386	-3.2%	47.1%
PBT	-654	322	93	-303.0%	-807.5%
Exceptional Items	0	0	0		
Profit Before Tax	-654	322	93	-303.0%	-807.5%
Tax Expenses	-342	83	-168	-509.8%	103.5%
PAT	-313	239	261	-230.8%	-220.0%

Q2FY25 – Key Concall Highlights

Guidance:

- The Phase 1 ramp up is going on for the Custom Manufacturing division, and the Phase 2 commissioning will take place in Q3FY25.

Key Highlights:

- Revenues came at INR 9,927 mn (down 13% QoQ / up 1% YoY) against our estimates of INR 12,021 mn.
- EBITDA for Q2FY25 stood at INR 260 mn (down 79% QoQ/ down 44% YoY) against our estimates of INR 1592 mn .
- EBITDA Margins fell to 3% against 11% in Q1FY25 and 5% in Q2FY24 against our estimates of 13%
- Q2FY25 Net Loss reported was INR 313 mn against our estimates of INR 482 mn Profits, against a Net Profit of INR 239 mn in Q1FY25 and INR 260 mn in Q2FY24.

Concall Highlights

- The Management attributed the volatile downtrend in PVC prices in Q2FY25 for the company's poor performance resulting in Net Losses.
- The Company registered 6% YoY volume growth in Q2FY25.
- The Indian Paste PVC market saw a 19% growth in consumption during April to September period, consuming 92 kilotonnes.
- The Management said that the Provisional Anti dumping duty announced in June 2024 provided some respite as there was zero imports from China during the quarter and lower imports from Thailand & Taiwan.
- However, they said that the impact of the Anti dumping duty was negated by the excessive dumping from the European Union which doubled for the H1FY25 against previous year.
- The Suspension PVC demand during the H1FY25 in Indian markets saw an impressive growth of 11% YoY to 2.2 million tonnes.
- The Management said that there is demand slowdown of Suspension PVC across other markets, leading to excessive dumping in Indian markets. They expect the demand to remain intact for the rest of the year FY25. The Company saw a decline of 15% YoY of Suspension PVC volumes.
- The Company said that Chinese suppliers have been dumping Suspension PVC at very low prices, which has impacted their realizations as well.
- Regarding the raw materials feedstocks, the VCM prices are seeing a downtrend paralleling the downward trajectory of PVC prices.
- The Specialities segment volumes increased by 13% YoY to 20,961 MT for Q2FY25 on account of increase in new capacity added of 41,000 tonnes.
- The value added chemicals division (Custom Manufacturing) saw a 29% YoY growth in volume terms and a 26% YoY increase in revenue terms.
- The Company signed the 6th Letter of Intent during the quarter which covers a duration of 5 years.
- The Prices of Chloromethanes witnessed a good recovery, while Caustic Soda and Hydrogen Peroxide prices remained stable.
- The Phase 2 of the Multi purpose Custom Manufacturing division is progressing well, and the management expects it to commission by Q3FY25.
- The Company shifted from the Old tax regime to the new tax regime, causing a reversal of deferred tax Liability of INR 650 mn.
- The Consolidated Net debt of the Company stood at INR 8,510 mn as of Sept 2024.

Financial Statements

Profit & Loss Statement (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
Revenues	49,411	39,230	47,102	54,203	62,936
% Growth	-16.1%	-20.6%	20.1%	15.1%	16.1%
Employee Costs	1,472	1,702	2,036	2,322	2,554
Operating & Other Expenses	43,257	37,269	39,447	43,658	48,024
EBITDA	4,681	258	5,618	8,223	12,358
EBITDA Margin %	9.5%	0.7%	11.9%	15.2%	19.6%
Depreciation	1,420	1,514	1,809	1,855	2,040
Other Income	799	805	785	903	994
EBIT	4,060	(450)	4,594	7,272	11,311
Finance Cost	1,540	1,805	2,100	2,270	2,497
Exceptional Items	(805)	-	-	-	-
PBT	1,715	(2,256)	2,494	5,002	8,815
Income Tax	192	(671)	1,723	2,417	2,659
PAT	1,524	(1,584)	772	2,585	6,156
PAT Margin %	3.1%	-4.0%	1.6%	4.8%	9.8%

Source: Company, Aриhant Capital Research

Balance Sheet (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
ASSETS					
Inventories	6,431	5,686	6,166	6,765	7,442
Trade Receivables	1,426	1,901	1,434	1,650	1,815
Cash & Bank Balance	11,919	8,012	10,058	22,790	35,341
Other Current Assets	1,680	2,811	1,680	1,680	1,680
Total Non-Current Assets	36,911	41,893	41,521	40,822	40,190
Total Assets	58,368	60,303	60,800	73,576	86,255
EQUITY AND LIABILITIES					
Equity Share Capital	791	791	791	791	791
Other Equity	17,794	16,215	23,100	32,769	43,406
Net Worth	18,585	17,006	23,891	33,560	44,196
Borrowings	10,192	15,475	9,444	9,570	9,666
Other Non-Current Liabilities	8,066	7,429	8,066	8,066	8,066
Trade Payables	18,615	17,458	16,489	19,470	21,417
Other Current Liabilities	2,910	2,935	2,910	2,910	2,910
Total Equity & Liabilities	58,368	60,303	60,800	73,576	86,255

Source: Company, Aриhant Capital Research

Financial Statements

Cash Flow (INR, Mn)	FY23	FY24	FY25E	FY26E	FY27E
PBT	1,715	(2,256)	8,613	12,087	13,296
Operating Profit before WC Changes	4,610	218	10,757	14,173	15,353
Operating Profit after WC Changes	4,488	(2,249)	9,776	16,338	16,458
Tax Paid	(934)	(201)	(1,723)	(2,417)	(2,659)
Cash Flow from Operating Activities	3,554	(2,449)	8,054	13,921	13,799
Cash Flow from Investing Activities	(2,172)	(5,240)	1,162	(180)	(198)
Cash Flow from Financing Activities	(270)	3,824	(7,211)	(1,009)	(1,051)
Net Change in Cash & Cash Equivalents	1,112	(3,865)	2,005	12,732	12,551
Opening Cash & Cash Equivalents	9,998	11,110	7,244	9,249	21,981
Closing Cash & Cash Equivalents	11,110	7,244	9,249	21,981	34,532

Source: Company, Arihant Capital Research

Key Ratios	FY23A	FY24E	FY25E	FY26E	FY27E
Per Share (INR)					
EPS	9.6	-10.0	43.6	61.2	67.3
BVPS	117.5	107.5	151.1	212.2	279.5
Valuation (x)					
P/E	54.4	-52.3	12.0	8.6	7.8
P/BV	4.5	4.9	3.5	2.5	1.9
EV/EBITDA	24.3	440.8	10.3	7.9	7.2
Return Ratios (%)					
Gross Margin	35.0%	31.0%	46.2%	47.6%	47.6%
EBITDA Margin	9.5%	0.7%	21.1%	24.0%	24.0%
PAT Margin	3.1%	-4.0%	13.2%	16.1%	16.1%
NOPAT Margin	7.3%	-0.8%	15.3%	17.9%	17.9%
ROE	8.6%	-8.9%	33.7%	33.7%	27.4%
ROCE	15.3%	-1.7%	34.6%	36.3%	31.4%
Leverage Ratio					
Total D/E	0.5	0.5	0.4	0.3	0.2
Turnover Ratios					
Asset Turnover	0.9	0.7	0.9	0.9	0.8
Receivable Days	11	12	10	10	10
Inventory Days	48	45	43	41	41
Payable Days	138	118	115	115	116

Source: Company, Arihant Capital Research

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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