



CHEMPLAST SANMAR LIMITED

Issue highlights

- Chemplast Sanmar Limited ("CSL")** was incorporated on March 13, 1985. The Promoter of the company is Sanmar Holdings Ltd ("**SHL**"). CSL is a part of the SHL Chemicals Group, which in turn is a constituent of the Sanmar Group, one among the oldest and 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.
- 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 the leading manufacturer of specialty paste PVC resin in India, on the basis of installed production capacity as of December 31, 2020. In addition, CSL is also the **3rd largest manufacturer of caustic soda** and the **largest manufacturer of hydrogen peroxide, each in 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**.
- Pursuant to the Chemplast Cuddalore Vinyls Ltd ("**CCVL**") Acquisition, they acquired 100% equity interest in CCVL that is the **2nd largest manufacturer of suspension PVC resin in India** and the largest manufacturer in South India region, on the basis of installed production capacity as of December 31, 2020.
- CSL has 4 manufacturing facilities, of which 3 are located in Tamil Nadu at Mettur ("**Mettur Facility**"), Berigai ("**Berigai Facility**") and Cuddalore ("**Cuddalore Facility**"), and 1 is located in Puducherry at Karaikal ("**Karaikal Facility**").

Brief Financial Details*

(₹ In Cr)

	As at Mar' 31,		
	2021	2020	2019
Equity Share Capital	67.04	67.04	67.04
Instruments entirely equity in nature	34.32	-	637.50
Reserves	(1,967.03) [^]	778.99	706.98
Net worth as stated	(1,865.68)	846.03	1,411.53
Revenue from Operations	3,798.73	1,257.66	1,254.34
Revenue Growth (%)	202.05%	0.26%	-
EBITDA as stated	1,127.22	254.52	298.05
EBITDA (%) as stated	29.55%	20.11%	23.53%
Profit Before Tax	547.19	71.70	193.40
Net Profit for the period	410.24	46.13	118.46
Net Profit (%) as stated [~]	10.80%	3.67%	9.44%
EPS (₹)	30.60	2.04	4.53
RoNW (%)	-	5.45%	8.39%
NAV(₹)	(139.15)	63.10	105.27

Source: RHP *Restated Consolidated Summary, [~]Reserve includes General Reserve, Retained earnings, Capital Reserve, Capital Redemption Reserve, Debenture redemption Reserve, Securities Premium and Share of Associate and Joint Venture. EBITDA Margin on Total Income. [^]Capital Reserve adjustment pursuant to acquisition of Subsidiary.

Note: Pursuant to the acquisition of CCVL by CSL ("**CCVL Acquisition**"), Company's financial statements for the Financial Year 2021 included in the RHP includes the effect of the results of operations and financial condition of CCVL from April 1, 2020.

Issue Details

Issue of Equity Shares aggregating up to of ₹ 3,850 Cr

(Fresh Issue of Equity Shares aggregating up to ₹ 1,300 Crore and Offer for sale aggregating up to ₹ 2,550 Crore)

Issue size: ₹ 3,850 Cr

No. of shares: 72,641,508 – 71,164,509

Face value: ₹ 5/-

Price band : ₹ 530 – 541

Bid Lot: 27 Shares and in multiple thereof

Post Issue Implied Market Cap:

₹ 8,406 – 8,554 Cr

GCBRLMs: Axis Capital, ICICI Securities, Credit Suisse, IIFL Securities, Ambit Pvt Ltd., BOB Capital Markets, HDFC Bank

BRLMs: Indusind Bank, Yes Securities

Registrar: KFin Technologies Pvt. Ltd.

Issue opens on: Tuesday, **10th Aug'2021**

Issue closes on: Thursday, **12th Aug'2021**

Indicative Timetable

Activity	On or about
Finalisation of Basis of Allotment	18-08-2021
Refunds/Unblocking ASBA Fund	20-08-2021
Credit of equity shares to DP A/c	23-08-2021
Trading commences	24-08-2021

Issue break-up

	No. of Shares (Approx) [^]	₹ In Cr	% of Issue
QIB	54,481,132 - 53,373,383	2,887.50	75%
NIB	10,896,226 – 10,674,676	577.50	15%
Retail	7,264,150 – 7,116,450	385.00	10%
Total	72,641,508 – 71,164,509	3,850.00	100%

at Lower Price Band and Upper Price Band

Listing : BSE & NSE

Shareholding (No. of Shares)

	Pre issue	Post issue [~]	Post issue [^]
	134,080,000	158,608,301	158,109,574

[~]Lower price Band [^]Upper Price Band

Shareholding (%)

	Pre-Issue	Post-Issue
Promoters & Promoter Gr	98.81%	54.99%
Promoter Group	1.19%	-
Public	-	45.01%
Total	100.00%	100.00%

BACKGROUND

Company and Directors

The company was originally incorporated as 'Urethanes India Limited', on March 13, 1985. The Promoter of the company is Sanmar Holdings Limited ("SHL"). Currently, SHL holds 132,480,000 Equity Shares (including 10 Equity Shares held by its nominees), representing 98.81% of the issued, subscribed and paid-up equity share capital of the company.

Acquisition of Chemplast Cuddalore Vinyls Ltd ("CCVL")

Pursuant to approval by the Board of Directors and shareholders of the Holding Company and that of Chemplast Cuddalore Vinyls Ltd (CCVL), the Holding Company as at March 31, 2021 acquired 100% of the Equity Share Capital of CCVL amounting to ₹ 303.03 crore from Sanmar Engineering Services Ltd. The Holding Company also invested in zero coupon compulsorily convertible debentures aggregating to ₹ 1,255.34 crore in CCVL. Consequent to the acquisition of the equity shares by the holding company, CCVL became a wholly owned subsidiary.

Brief Biographies of Directors

Vijay Sankar is the Chairman and Non – executive Director of the company. He has been associated as Director of the company since April 2021. He is an industrialist and has several years of experience in managing several businesses. He is on the boards of companies such as The KCP Ltd, Oriental Hotels Ltd, Kaveri Retreats and Resorts Ltd and Transport Corporation of India Ltd.

Ramkumar Shankar is the Managing Director of the company. He has been associated as the Managing Director of the company since February 2021. He is also the managing director of Chemplast Cuddalore Vinyls Ltd ("CCVL") since April 2020, and has been heading the chloro – vinyl business of the company since 2013. He has several years of experience in the chloro-vinyls business.

Chandran Ratnaswami is the Non – executive Director of the company. He has been associated as a Director of the company since April 2021. 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 Ltd. He brings over several years of experience in investment sector.

Amarnath Ananthanarayanan is the Non – Executive Director of the company. He has been associated as a Director of the company since March 2019. 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.

Dr. Lakshmi Vijayakumar is the Independent Director of the company. She has been associated as Director of the company since April 2021. She has several years of experience in the medical sector.

Aditya Jain is the Independent Director of the company. He has been associated as Director of the company since April 2021.

Sanjay Vijay Bhandarkar is the Independent Director of the company. He has been associated as the Director of the company since April 2021. He is on the board of various companies including S Chand and Co Ltd, The Tata Power Co Ltd and HDFC Asset Management Co Ltd. He has several years of experience in the corporate finance, advisory and investment banking sectors.

Prasad Raghava Menon is the Independent Director of the company. He has been associated as Director of the company since April 2021. He has several years of experience in the chemical and power sector.

Key Managerial Personnel

N Krishnamoorthy is the executive director (commercial) of the company. He has been associated with the company since 1993. He has approximately 37 years of work experience and was previously associated with Reliance Industries Ltd and Southern Petrochemical Industries Corporation Ltd.

Dr. Krishna Kumar Rangachari is the executive director (business operations) of the custom manufacturing plant at Berigai Facility. He has been associated with the company since March 2021. He has approximately 30 years of work experience.

S Sai Subramaniyan is the Senior Vice President (strategic sourcing) of CCVL. He has been associated with the company since 2010. He has approximately 32 years of work experience.

S Gajendiran is the Executive Vice President (operations) of the company and is the location head of the Mettur Facility. He has been associated with the company since 2005. He has approximately 30 years of work experience.

N Palanisamy is the Senior Vice President (operations) of CCVL. He has been associated with the company since 1995. He has approximately 32 years of work experience.

S Mathivanan is the Vice President (operations) of the company in charge of the operations at Karaikkal Facility. He has been associated with the company since 2009. He has approximately 37 years of work experience.

Mohith Balakrishnan is the Senior General Manager (human resources) of the company. He has been associated with the company since 2020. He has approximately 20 years of work experience.

M Chandrasekar is the Chief Financial Officer of the company. He has been associated with the company since 1995. He has approximately 26 years of work experience.

M Raman is the Company Secretary and Compliance Officer of the company. He has approximately 30 years of work experience.

The awards, accreditation or recognitions received by the company:

Year	Award
2021-22	<ul style="list-style-type: none"> Silver EcoVadis Medal from EcoVadis and the result places the Company among the top 25% of companies accessed by EcoVadis (Mettur Facility III)
2019-20	<ul style="list-style-type: none"> Safety Award from the Directorate of Industrial Safety and Health, Government of Tamil Nadu for achieving lowest weighted injury accident frequency rate at the Mettur Facility and achieving the longest injury free working at the Mettur Facility. First price in manufacturing (large sector) at 8th FICCI Safety Systems Excellence Awards or Industry, 2019 (Mettur Plant III) Indian Chemical Council 'Certificate of Merit for Social Responsibility' for 2018. British Safety Council's Occupational Health and Safety Audit Five Star grading for CCVL

OBJECTS OF THE ISSUE

Objects	Amount
Early redemption of NCDs issued by the company, in full ("NCD Redemption")	1,238.25
General Corporate Purposes	[•]
Total	[•]

OFFER DETAILS

The Offer	Amount	No. of Shares
Fresh Issue	₹ 1,300.00 Cr	Upto 24,528,301 [~] - 24,029,574 [^] Equity Shares
Offer for Sale by the Selling Shareholder	₹ 2,550.00 Cr	Upto 48,113,207 [~] - 47,134,935 [^] Equity Shares
- Sanmar Holdings Ltd – Promoter Shareholder	₹ 2,463.44 Cr	Upto 46,480,000 [~] - 45,534,935 [^] Equity Shares
- Sanmar Engineering Services Ltd - Promoter Gr S/H	₹ 86.56 Cr	Upto 1,633,207 [~] - 1,600,000 [^] Equity Shares

[~]Lower price Band [^]Upper Price Band

Shareholding Pattern:

Shareholder	Pre-offer		No. of Shares offered*	Post-offer	
	Number of Equity Shares	% of Total Equity Share Capital		Number of Equity Shares	% of Total Equity Share Capital
Promoter & Promoter Group					
- Sanmar Holdings Ltd	132,480,000	98.81%	45,534,935	86,945,065	54.99%
- Sanmar Engineering Services Ltd	1,600,000	1.19%	1,600,000	-	-
Total – Promoter & Promoter Group	134,080,000	100.00%	47,134,935	86,945,065	54.99%
- Public	-	-	-	71,164,509	-
Total - Public	-	-	-	71,164,509	45.01%
Total Equity Share Capital	134,080,000	100.00%	47,134,935	158,109,574	100.00%

*Based on shares issued/offered at upper price band

BUSINESS OVERVIEW

Chemplast Sanmar Limited ("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 the leading manufacturer of specialty paste PVC resin in India, on the basis of installed production capacity as of December 31, 2020. In addition, CSL is also the 3rd largest manufacturer of caustic soda and the largest manufacturer of hydrogen peroxide, each in 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. Pursuant to the Chemplast Cuddalore Vinyls Ltd ("CCVL") Acquisition, they acquired 100% equity interest in CCVL that is the 2nd largest manufacturer of suspension PVC resin in India and the largest manufacturer in South India region, on the basis of installed production capacity as of December 31, 2020.

The high barriers to entry and limited competition is expected to benefit existing manufacturers of specialty paste PVC resin in India in the medium term and the demand for specialty paste PVC resin is expected to grow at a CAGR of 6% to 8% between Financial Years 2022 and 2025. The demand for custom manufacturing catered by Indian manufacturers is likely to grow at a CAGR of approximately 12% between Financial Years 2020 and 2025, due to the higher penetration of pharmaceutical molecule, compound and active pharmaceutical ingredient manufacturing in India and India becoming a key supplier of non-commercially available molecules or monomers or polymers. Further, custom manufacturing for agrochemical sectors is also likely to witness a boost with discovery chemistry pertaining to agricultural sector gaining more traction. Demand for caustic soda is also expected to grow at a CAGR of 4% to 5% between Financial Years 2020 and 2025, led by increasing demand from the alumina and chemical industries. Further, the demand in the Indian market for chloromethanes and hydrogen peroxide is expected to grow at a CAGR of 8% to 9% and 6% to 7% between Financial Years 2020 and 2025, respectively.

In addition, domestic demand for suspension PVC resin is expected to grow at a CAGR of 7.5% to 8.5% between Financial Years 2021 and 2025. CSL 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.

CSL has 4 manufacturing facilities, of which 3 are located in Tamil Nadu at Mettur ("**Mettur Facility**"), Berigai ("**Berigai Facility**") and Cuddalore ("**Cuddalore Facility**"), and 1 is located in Puducherry at Karaikal ("**Karaikal Facility**").

The company has a coal-based captive power plant of 48.5 MW at their Mettur Facility and 2 natural gas-based captive power plants of 8.5 MW and 3.5 MW respectively, at their Karaikal Facility. They have also leased a salt field from the Government of Tamil Nadu at Vedaranyam, Tamil Nadu. They have approval from the TNPCB to extract up to 400 kt of salt p.a. The lease has expired and CSL is in the process of renewing the lease deed.

CSL has a strong focus on sustainability in all aspects of their operations. 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. In addition, they have received the Indian Chemical Council certification 'Responsible Care' for maintaining best practices in their operations. The Cuddalore Facility was awarded a 5 star grading in an Occupational Health and Safety Audit from the British Safety Council for Financial Year 2020. They have established desalination units at their Karaikal and Cuddalore Facilities and also adopted "**zero liquid discharge**" at all of their manufacturing facilities wherein no treated effluent from their manufacturing operations is discharged onto the land or into any water body. They have also voluntarily conducted yearly sustainability audits for each of their manufacturing facilities since Financial Year 2011.

CSL is a part of the SHL Chemicals Group, which in turn is a constituent of the Sanmar Group, one among the oldest and 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.

CSL has a strong management team with extensive experience in the chemicals industry and a track record of operational excellence. Their Board of Directors includes a combination of management executives and independent directors who bring in significant business expertise. The combination of their experienced Board of Directors and their dynamic management team positions them well to capitalize on future growth opportunities.

As of March 31, 2021, the company employed 941 permanent personnel and CCVL has employed 245 permanent personnel.

PRODUCT OVERVIEW

Specialty chemicals

Specialty paste PVC resin

Specialty paste PVC resin is primarily used by end-user industries to produce, among other things, artificial leather, tarpaulin, gloves, conveyor belts and coated fabrics. CSL started manufacturing specialty paste PVC resin in Financial Year 1968.

Specialty Paste PVC resin	FY2021	FY2020	FY2019
Manufactured	59,860 MT	65,845 MT	63,070 MT
Sold	62,592 MT	64,082 MT	62,131 MT

Custom Manufacturing operations

CSL custom manufacture starting materials and intermediates for multinational innovator companies in the agrochemical, pharmaceutical and fine chemicals industry. In their custom manufacturing operations, the processes and technical specifications are developed in consultation with a customer and the product is made for a specific customer. CSL provides a spectrum of services across the value chain that includes process research, process development and scale-up, analytical studies, plant engineering and commercial scale manufacturing.

Other chemicals

Caustic soda

Caustic soda is generated as a joint product in the process of manufacture of chlorine. Caustic soda is used by various industries such as textiles, paper and pulp, water treatment, alumina, organic chemicals, inorganic chemicals, pharmaceuticals, soaps and detergents and chlorinated paraffin wax. CSL started manufacturing caustic soda in Financial Year 1989.

Caustic soda	FY2021	FY2020	FY2019
Manufactured	61,881 MT	84,394 MT	101,875 MT
Sold	58,720 MT	79,821 MT	97,490 MT

Chloromethanes

Chloromethanes refers to a group of products namely, methyl chloride, methylene chloride ("MDC"), chloroform and carbon tetra chloride ("CTC"). MDC is primarily used as a solvent in pharmaceuticals, as raw material in refrigerants and agrochemicals and as a foam blowing agent. Chloroform is primarily used as a solvent in pharmaceuticals and as raw material in manufacturing fluoro polymers. CTC is primarily used as raw material in cypermethrin, an insecticide and as raw material in new generation refrigerants, namely hydrofluoro olefins. CSL started manufacturing chloromethanes in Financial Year 1989.

Chloromethanes	FY2021	FY2020	FY2019
Manufactured	31,833 MT	34,564 MT	35,173 MT
Sold	30,900 MT	32,847 MT	33,833 MT

Refrigerant Gas

Refrigerant gas is primarily used as a cooling agent in air-conditioning systems.

Hydrogen peroxide

Hydrogen peroxide is primarily used for textile bleaching, paper and pulp bleaching, and water treatment. CSL started manufacturing hydrogen peroxide in Financial Year 2020.

Hydrogen Peroxide	FY2021	FY2020
Manufactured	14,429 MT	7,032 MT
Sold	14,638 MT	6,041 MT

Suspension PVC resin

Suspension PVC resin is a grade of PVC that is primarily used by end-user industries to produce pipes and fittings, films and sheets, window and door profiles, wires and cables.

Suspension PVC Resin*	FY2021	FY2020	FY2019
Manufactured	262,971 MT	273,157 MT	284,350 MT
Sold	273,296 MT	271,300 MT	279,462 MT

* Manufactured by CCVL

The realization, in terms of the revenue from operations per metric ton, for each of the products:

(in ₹/MT)

	FY2021	FY2020	FY2019
Specialty Paste PVC resin	119,292	98,265	89,197
Caustic soda	21,619	30,238	36,752
Chloromethanes	46,208	44,333	50,471
Hydrogen peroxide	24,589	32,414	-
Refrigerant gas	335,918	342,611	386,514
Suspension PVC resin	91,856	69,243	73,409

The hydrogen peroxide capacity is calculated at 50% concentration level in line with industry standards. The hydrogen peroxide plant was commissioned in Financial Year 2020.

COVID 19 - BUSINESS IMPACT

Company's production during the first quarter of financial year 2021 was affected due to the lockdown and all their manufacturing facilities were shut down in April 2020 (other than their Berigai Facility for custom manufacturing operations).

- They resumed production of specialty paste PVC resin by May 2020, and the demand for specialty paste PVC resin recovered from August 2020 onwards with excellent margins. Due to the COVID-19 pandemic, the demand for vinyl gloves increased significantly which improved the demand for specialty paste PVC resin.
- The chloromethanes business has also recovered as it is largely used by pharmaceuticals and agro-chemical sectors. Majority of the end-user industries resumed full production and demand improved during the second quarter of financial year 2021.
- The Berigai Facility (for custom manufacturing) continued to operate even during the lockdown and was not impacted by the COVID-19 pandemic as their custom manufacturing business caters to the pharmaceutical and agro-chemical sectors that are considered essential services.
- Caustic soda and hydrogen peroxide are largely used in the textile and paper sectors, where demand continued to be weak and improvement in these sectors was slow. Demand from the stationery sector continues to be affected due to the closure of schools and colleges. Alumina, a key end-user industry of caustic soda, also had a slow recovery.

REVENUE FROM OPERATIONS

(₹ in Cr)

	FY2021	FY2020	FY2019
Revenue from contract with customers	3,792.73	1,251.65	1,247.12
- Revenue from the sale of goods	3,767.69	1,249.46	1,245.19
- Revenue from the sale of traded goods	24.87	-	-
- Revenue from the rendering of services	0.04	0.15	-
- Leasing income	0.13	2.04	1.93
Other operating revenue	6.00	6.01	7.22
- Revenue from sale of scrap	3.14	3.11	3.58
- Revenue from export incentives	2.86	2.90	3.64
Total	3,798.73	1,257.66	1,254.34

MANUFACTURING UNITS

The company has 4 manufacturing facilities, of which 3 are located in Tamil Nadu and 1 is located in Puducherry. As of December 31, 2020, their manufacturing facilities in aggregate are spread across approximately 598.19 acres.

Mettur, Tamil Nadu :

The Mettur Facility has a specialty paste PVC resin plant, a caustic soda plant, a chloromethanes plant, a hydrogen peroxide plant and a refrigerant gas plant. The company manufactures specialty paste PVC resin, caustic soda, chlorine, hydrogen, chloromethanes, hydrogen peroxide and refrigerant gas at this facility. The Mettur Facility is

automated with distribution control systems. This facility sources power from a coal-based captive power plant of 48.5 MW.

Karaikal, Puducherry:

The Karaikal Facility has a caustic soda plant and an EDC plant. The Karaikal Facility is equipped with automated distribution control systems.

Cuddalore, Tamil Nadu

The Cuddalore Facility has a suspension PVC resin plant with an installed production capacity of 300 ktpa. It has a marine terminal facility with the ability to handle ships of around 10,000 DWT capacity.

Berigai, Tamil Nadu

The Berigai Facility is involved in the custom manufacturing of starting materials and intermediates. It is a batch operated multi-purpose plant with a range of glass lined and stainless steel reactors and other allied equipment. They are able to manufacture various products depending on the customer requirements. The Berigai Facility is automated with distributed control systems and modern technologies. As of December 31, 2020, the Berigai Facility also has capabilities to support development work in various chemistries such as cyanation, hydrogenation and distillation at the laboratory scale and pilot scale (less than 5 kg/batch).

The installed production capacity and capacity utilization:

Manufacturing Facilities	Installed production capacity (in kt)	Capacity utilization (%)		
		FY 2021	FY 2020	FY 2019
Mettur Facility				
Specialty paste PVC resin	66	91%	100%	96%
Caustic soda	67	64%	82%	102%
Chloromethanes	35	91%	99%	100%
Hydrogen peroxide	34	42%	21%	-
Refrigerant gas	1.70	30%	75%	39%
Karaikal Facility				
Caustic soda	52	36%	57%	65%
Cuddalore Facility				
Suspension PVC resin	300	88%	91%	95%

The hydrogen peroxide capacity is calculated at 50% concentration level in line with industry standards. The hydrogen peroxide plant was commissioned in Financial Year 2020.

Berigai Facility

Installed Production Capacity, Operating Production Capacity and Capacity Utilization:						
Capacity*	Fiscal 2021		Fiscal 2020		Fiscal 2019	
	Capacity (in MTPA)	Capacity Utilization (%)	Capacity (in MTPA)	Capacity Utilization (%)	Capacity (in MTPA)	Capacity Utilization (%)
Installed Production Capacity	1,068	62%	1,032	64%	900	51%
Operating Production Capacity [^]	934	71%	904	74%	785	59%

* The information relating to the installed capacity of the Berigai Facility as of the dates included above are based on various assumptions and estimates that have been taken into account for calculation of the installed capacity. These assumptions and estimates include the standard capacity calculation practice of specialty chemicals industry after examining the calculations and explanations provided by the company and the reactor capacities and other ancillary equipment installed at the Berigai Facility. The assumptions and estimates taken into account include the number of working days in a year as 365 days.

[^] Operating capacity is given considering the fact that this is a multipurpose facility which produces basket of products. Operating capacity is arrived at after considering shutdown/change over between various products.

CAPITAL EXPENDITURE

CSL has incurred significant capital expenditure to develop the specialty paste PVC resin manufacturing facility and intend to further invest ₹ 256 crore by Financial Year 2024 to further enhance their manufacturing capacity. Further, they had invested ₹ 113 crore in Financial Year 2020 to purchase plant, machinery and technology for their hydrogen peroxide plant. They also intend to improve their operational efficiencies in their manufacturing process at the Karaikal Facility by **de-bottlenecking the caustic soda plant**. They have committed capital expenditure outlay of ₹ 619.50 crore for these expansion activities.

COMPETITIVE STRENGTHS

- **Well-positioned to capture favourable industry dynamics**

- **Specialty paste PVC resin**

The demand for specialty paste PVC resin is expected to grow at a CAGR of 6% to 8% between Financial Year 2022 and Financial Year 2025. There is a supply deficit of specialty paste PVC resin in the Indian market which is further impacted by limited supply sources of specialty paste PVC resin in India and rationalization of specialty paste PVC resin capacities globally. Given that CSL manufacture significant portion of their EDC and all of their VCM requirements, the intermediates required for manufacturing specialty paste PVC resin, in-house, their reliance on external suppliers reduces, thereby helping them maintain a steady production stream of specialty paste PVC resin. In addition, their business benefits from repeat customers.

Approximately 45% of demand in India for specialty paste PVC resin is being met by imports. 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% of the demand for specialty paste PVC resin in India in Financial Years 2020, with 82% market share of the specialty paste PVC resin manufactured and sold in India. Due to the high barriers to entry and limited competition is expected to benefit existing manufacturers of specialty paste PVC resin in India in the medium term.

- **Custom manufacturing**

Due to factors such as availability of skilled workers at lower rates compared to developed economies, surge in global demand for food grains, growth in demand for drugs and hygiene products, the revised strategy of major economies to reduce their dependence on a single country and government initiatives to support growth of pharmaceutical sector, the demand for custom manufacturing is likely to grow at a CAGR of approximately 12% between Financial Years 2020 and 2025.

- **Chloromethanes**

Due to factors such as rapid growth in the pharmaceutical industry, rising demand for agrochemicals and increase usage of hydrofluorocarbons that use methylene chloride (“MDC”) as raw material, the demand for chloromethanes in India is expected to grow at a CAGR of 8% to 9% between Financial Years 2020 and 2025.

- **Caustic soda**

The growth in the demand for caustic soda is due to the factors such as increasing demand from the alumina and chemicals industries. The GoI has also announced the setting up of 7 mega-textile parks over the next 3 years to grow the textile industry, one of the end-user industries. Accordingly, the demand for caustic soda is expected to grow at a CAGR of 4% to 5% between Financial Years 2020 and 2025.

- **Hydrogen Peroxide**

The growth in the hydrogen peroxide industry at a CAGR of 6% to 7% between Financial Years 2020 and 2025 due to factors such as growth in paper and pulp and textile industries, increase in the volume of crude oil being processed by existing and upcoming refineries in India and growth in the demand for disinfectants post COVID-19.

- **Suspension PVC resin**

The demand for suspension PVC resin is expected to grow at a CAGR of 7.5% to 8.5% between Financial Years 2021 and 2025 due to a number of factors including lack of viable substitutes for suspension PVC resin, low per capita consumption of suspension PVC resin in India compared to other countries, increased investments in the end-user industries such as irrigation, urban infrastructure and real estate.

In suspension PVC resin markets, there is significant gap between demand and supply with less than 50% of the demand in India being met by domestic production. CCVL is the 2nd largest manufacturer of suspension PVC resin in India, on the basis of installed production capacity as of December 31, 2020, with market share of 19% and 20% of the suspension PVC resin manufactured and sold in India in Financial Years 2020 and 2019, respectively. CCVL is also the largest manufacturer of suspension PVC resin in the South India region, on the basis of installed production capacity as of December 31, 2020 and catered to 38% and 42% of the demand for suspension PVC resin in the South India region in Financial Years 2020 and 2019, respectively.

Further, the lack of new supply sources due to a rebalancing in the global market has created additional supply constraints.

- **Leadership Position in an Industry with High Barriers to Entry**

Company's success in the chemicals markets is based on their ability to compete successfully in a technologically intensive industry, as well as their capability to identify, develop and improve the performance of specialty products which meet the stringent technical performance requirements of their customers. Deploying such modern machinery in the most efficient way, however, requires years of accumulated industrial know-how. Given their scale, replicating such an installed base would require substantial capital investments, time and in-depth knowledge.

In custom manufacturing, CSL 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. This gives them the opportunity to be the initial suppliers for such products to the patent holders. The custom manufacturing industry has significant entry barriers, including customer validation and approvals, expectation from customers for process innovation and cost reduction, high quality standards and stringent specifications.

- **Vertically integrated operations**

CSL has vertically-integrated operations for manufacturing of its products which bring significant advantages:

- **Stable supply of raw materials.** Due to their internal manufacturing of EDC, VCM and chlorine, the intermediates required for the manufacturing of company products, CSL reduces their reliance on external suppliers of these raw materials. For the Financial Years 2021, 2020 and 2019, they utilized ₹180.94 crore, ₹101.98 crore and ₹59.63 crore of raw materials that were manufactured by them, constituting 14% (3% on a consolidated basis), 23% and 44% of the total raw materials consumed, respectively.
- **Competitive cost structure.** As they produce EDC, VCM, chlorine and hydrogen that is used internally at their Mettur and Karaikal Facilities, they are able to lower their costs of raw materials and achieve savings on corresponding transportation costs. They have also leased a salt field at Vedaranyam, Tamil Nadu from the Government of Tamil Nadu, to ensure a steady supply of salt that is utilized in the manufacture of caustic soda, which further enables them to lower their costs of raw materials. The lease has expired and they are in the process of renewing the lease deed.
- **Sustainable development.** CSL endeavor to fully utilize the by-products from their manufacturing process.
- **Incremental revenues:** CSL is able to sell joint products such as caustic soda and value added products such as chloromethanes, to maximize efficiency of their operations and enhance their revenues and profits; and
- **Flexible manufacturing planning:** Company's integrated manufacturing facilities allow them to produce a broad range of products across the manufacturing chain.
- **Quality Manufacturing Facilities with a strong focus on sustainability**

CSL has four manufacturing facilities which are certified ISO 9001:2015 for quality management systems and ISO 45001:2018 for occupational health and safety management systems, to the extent required. In addition, they have received the Indian Chemical Council certification 'Responsible Care' for maintaining best practices in their operations. They have established **desalination units** at their Karaikal and Cuddalore Facilities, and have installed zero discharge facilities at their manufacturing facilities for the treatment of all liquid effluents. They have also adopted various measures to optimize energy conservation such as installing variable frequency drive in coal based power plant boilers.

- **Operational excellence**

CSL derives operational efficiencies by centralizing and sharing certain key functions across their businesses with other companies in The Sanmar Group such as finance, legal, information technology, strategy, procurement and human resources. Their network is well-managed with close quality control of their sites, dedicated IT systems and strong reporting tools, which allow information sharing and internal benchmarking. They invested significant

management resources to ensure that they leverage existing inter-linkages between their businesses and are able to maximize the potential synergies amongst them.

- **Strong Parentage and Experienced management team**

The company has a strong management team with extensive experience in the chemicals industry and a track record of operational excellence. The management team is led by Ramkumar Shankar, who has several years of industry experience. The key management team consists of 10 individuals who average approximately 30 years of experience in the industry. The commitment and strong track record of their management team provides stability in the execution of their business plan. The Board of Directors includes a combination of management executives and independent directors who bring in significant business expertise. The combination of their experienced Board of Directors and their dynamic management team positions them well to capitalize on future growth opportunities.

KEY BUSINESS STRATEGIES

- **Focus on developing and improving the product portfolio**

CSL continues to seek to develop or improve products and processes to meet demands of their existing customers, to further enhance the performance of their specialty products and to respond to increasing compliance requirements under the environmental regulations. The specialty products have high barriers to entry and as such provide better operating margins. As a result, they also plan to leverage their 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 their business.

- **Expansion of production capacities**

Given the expected continuing strong demand for company's products, they intend to continue to add production capacity selectively to their business lines. Going forward, they are proposing to expand their 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 their 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.

- **Improving financial performance through focus on operational efficiencies**

CSL is focuses on managing their working capital more efficiently, which assists in freeing up additional capital to support the growth of the business. Their focus on maximizing free cash flow should enable them to reduce their overall indebtedness and improve their credit metrics. Currently, they expect to use up to ₹ 1,238.25 crore of the Net Proceeds from the Offer to repay existing indebtedness.

They intend to continue to actively manage their operating costs to improve margins through various measures:

- **De-bottlenecking** of facilities to improve operational metrics.
- Continue to focus on selling a significant majority of their non-specialty products to customers in South and East India to save on freight costs;
- Sustained measures taken to **optimise conversion cost of suspension PVC resin**; and
- Leveraging the scale of the operations to source raw materials at favourable prices and optimizing the logistics cost.

PEER COMPARISON

Specialty paste PVC resin

CSL and Finolex Industries Ltd are the only manufacturers of specialty paste PVC resin in India. CSL has a plant at Mettur, Tamil Nadu. It also has a capacity to produce EDC at its Karaikal facility and VCM at its Mettur facility. Company's caustic soda plants at Mettur and Karaikal produce chlorine as a joint product, used as an input in the manufacture of EDC. Ethylene required for manufacturing EDC is entirely imported.

Peer comparison for specialty paste PVC resin as of December 31, 2020

Player	Capacity (KTPA)	Location	Region	Backward Integration		
				VCM	EDC	Chlorine
Chemplast Sanmar	66	Mettur (Tamil Nadu)	South			
Finolex Industries Ltd	22	Ratnagiri (Maharashtra)	West			

Indian custom manufacturing market

Deccan Fine Chemicals, Anupam Rasayan, CSL, SRF, Hikal and PI Industries Ltd are some of the key manufacturers in custom manufacturing market space. These companies have businesses spanning both pharmaceutical and agrochemicals, with manufacturing contracts (small and large scale) and distribution contracts from global corporations.

Caustic Soda Market

In India, Grasim Industries Ltd. (including Aditya Birla Chemicals), DCM Shriram Ltd, Gujarat Alkalies and Chemicals Ltd (GACL), and Reliance Industries Ltd have a combined capacity of more than 2,800 KTPA. Grasim Industries Ltd. has chlor-alkali facilities at 7 locations, DCM Shriram, Chemplast Sanmar and GACL at 2 locations each, and Reliance Industries at 1 location.

Hydrogen Peroxide

There are 6 players producing hydrogen peroxide in India. Out of these, GACL, National Peroxide, CSL, and Meghmani Finechem have their own by product hydrogen production. Since hydrogen peroxide is a local product due to its high transportation cost, most players prefer to supply in their regional markets. CSL and HOCL are the only players operating in the South.

Player	Capacity at 50% concentration (KTPA)	Location	Region	Backward Integration
National Peroxide Ltd	150	Kalyan (Maharashtra)	West	
GACL	106	Dahej, Vadodara (Gujarat)	West	
Meghmani Finechem	60	Dahej (Gujarat)	West	
Indian Peroxide Ltd	46	Dahej (Gujarat)	West	
Chemplast Sanmar	34	Mettur (TN)	South	
HOCL	10.5	Kochi (Kerala)	South	

Chloromethanes

There are totally 6 players producing chloromethanes in India. Gujarat Fluorochemicals Ltd (GFL), GACL and SRF Ltd (SRF) dominate the western and northern markets. CSL and TGVSAAARCL are the only 2 players in the southern region. In terms of backward integration, most players produce chlorine required for manufacturing chloromethanes. SRF and GFL are key players in production of refrigerants and fluoropolymers, and therefore, are forward integrated to utilise their production of chloromethanes.

Player	Capacity (KTPA)	Location	Region	Backward Integration	Forward Integration
SRF	95	Dahej, Bhiwadi	West, North		
GFL	88	Dahej, Gujarat	West		
GACL	56	Vadodara (Gujarat)	West		
Meghmani Finechem	40	Dahej, Gujarat	West		
TGVSRAACL	41	Kurnool (AP)	South		
Chemplast Sanmar	35	Mettur (TN)	South		

S-PVC

RIL, CCVL and Finolex Industries are the top 3 manufacturers of S-PVC in India. RIL dominates the market in the western region, while CCVL, along with DCW, have their plants in the southern region. In the north, only DCM Shriram has manufacturing facility. RIL is integrated backward as it produces ethylene, chlorine, EDC and VCM at its petrochemical plants located in Gujarat.

Peer comparison: S-PVC as of December 31, 2020

Player	Capacity (KTPA)	Location	Region	Backward Integration					Forward Integration
				Calcium carbid	Ethylene	Chlorine/HCl	EDC	VCM	
Reliance Industries	770	Dahej, Vadodara, Hazira (Gujarat)	West						
CCVL	300	Cuddalore (TN)	South						
Finolex Industries	250	Ratnagiri (Maharashtra)	West						

Backward Integration									Forward Integration
Player	Capacity (KTPA)	Location	Region	Calcium carbid	Ethylene	Chlorine/HCl	EDC	VCM	
DCW	90	Tuticorin (TN)	South						
DCM Shriram	82	Kota (Rajasthan)	North						

Caustic Soda – Capacity location of Key Players as of December 31, 2020

Players	Location-wise Capacity (KTPA)							Total
Grasim Industries	Renukoot	Nagda	Veraval	Karwar	Ganjam	Rehla	Vilayat	1,147
	129	270	91	91	91	110	365	
DCM Shriram Industries	Bharuch	Kota						673
	500	173						
GACL	Vadodara	Dahej						631
	206	424						
RIL	Dahej							179
	179							
Chemplast Sanmar	Mettur	Karaikal						119
	67	52						
Andhra Sugars	Saggonda							183
	183							
TGVSRACL	Kurnool							259
	259							

COMPARISON WITH LISTED INDUSTRY PEERS (AS ON 31ST MARCH 2021)

Name of the Company	Consolidated/ Standalone	Face Value	Total Income (₹ Cr)	EPS (Basic)	NAV [^]	P/E [~]	P/B [~]	RoNW (%)
Chemplast Sanmar Ltd	Consolidated	5	3,815.11	30.60	(139.15)	[•]	[•]	NA
Peer Group								
PI Industries Ltd	Consolidated	1	4,701.90	49.92	351.47	58.94	8.37	13.82%
SRF Ltd	Consolidated	10	8,454.63	305.59	1,157.03	24.68	6.52	17.47%
Finolex Industries Ltd	Consolidated	2	3,534.37	11.89	50.59	14.97	3.52	23.50%
Navin Fluorine International Ltd	Consolidated	2	1,258.44	52.03	165.06	73.80	23.26	15.76%

Source: RHP; P/E Ratio has been computed based on the closing market price of the equity shares (Source: BSE) on July 8, 2021.

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