

INEOS Styrolution India Limited

August 10, 2022

Ratings

Facilities	Amount (₹ crore)	Rating ¹	Rating Action
Long term / short term bank facilities	256.00	CARE A+ / CARE A1+ (CWD) (Single A Plus / A One Plus) (Under Credit watch with Developing Implications)	Placed on Credit watch with Developing Implications
Total bank facilities	256.00 (₹ Two hundred fifty-six crore only)		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of INEOS Styrolution India Limited (SIL) have been placed under 'Credit watch with developing implications' in view of the recent announcement for sale of entire 61.19% equity stake of Ineos Styrolution APAC Pte Ltd. (ISAPL) in SIL to Shiva Performance Materials Private Limited (SPMPL) and the possible impact of the same on the credit profile of SIL. CARE Ratings would closely monitor the developments with respect to this announcement and would take a view on the ratings of SIL post change in ownership of SIL and gaining greater clarity on the new promoters' plans for SIL along with analyzing the impact of the same on the business and financial profile of SIL.

The ratings assigned to the bank facilities of SIL continue to derive strength from its established and long track record of operations along with its leadership position in the Indian Acrylonitrile Butadiene Styrene (ABS) and Styrene Acrylonitrile (SAN) co-polymer markets with focus on customized speciality products, its improving position in polystyrene business, its diversified clientele and stable demand prospects from end user industries. The ratings also factor established position of the current promoter of SIL in the styrene-based polymer business globally, its state-of-the-art manufacturing facilities and established arrangement for procurement of key raw materials. SIL's profitability improved significantly during FY21 (refers to the period April 1 to March 31) and FY22, while its leverage and debt coverage indicators continued to remain comfortable and it had strong liquidity in spite of large dividend pay-outs in FY22 and Q1FY23.

The ratings, however, continue to be constrained by high volatility associated with its profitability wherein it had incurred losses during FY19 and FY20, susceptibility of SIL's profitability to volatile prices of its raw materials and foreign exchange rate fluctuations associated with imported raw materials which, however, gets partly addressed by formula based pricing and hedging practices of SIL. The ratings are further constrained by strong competition from imports (especially from South-East Asia) and presence in a competitive and cyclical chemical industry, which is also exposed to stringent environmental compliance and is susceptible to accidental fire.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustenance of PBILDT margin and ROCE above 20% in the medium term
- Optimum utilization of expanded capacity of ABS & SAN on a sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- Decline in scale of operations marked by TOI lower than ₹1,200 crore on a sustained basis
- Decline in PBILDT margin to less than 10% on a sustained basis
- Deterioration in capital structure marked by overall gearing beyond 0.75 times
- Any large size predominantly debt funded capex taken up by the company which has material impact on its capital structure and debt coverage indicators

Scheme of stake sale by promoters

On August 01, 2022, SIL has announced on the stock exchange that Shiva Performance Materials Private Limited (SPMPL, acquiring company) has entered into a share purchase agreement with ISAPL (holding company of SIL), pursuant to which SPMPL has agreed to purchase all the equity shares held by ISAPL in SIL i.e. 61.19% of the equity share capital of SIL at a price of ₹600 per equity share totaling to ₹645.67 crore. Consequently, in compliance with the SEBI Regulations, SPMPL along with Geetganga Investment Private Limited, Mr. Rakesh Agrawal, Mr. Rahul Agrawal, Mr. Vishal Agrawal, Mrs. Uma Agrawal and Mrs. Madhavi Agrawal in their capacity as the persons acting in concert with the Acquirer, have announced an open offer for acquisition of 26.00% of the equity capital of SIL from the public shareholders of SIL on a fully diluted basis, at an offer price of ₹848.72 per equity share totaling to ₹388.06 crore payable in cash. As per open offer announcement, this transaction is likely to be completed by Q3FY23. As such CARE Ratings would await further developments to unfold and more clarity to emerge in this regard to assess the impact of this stake sale on the credit profile of SIL. Pending such clarity, CARE Ratings has placed the ratings of the bank facilities of SIL on 'credit watch with developing implications'.

¹Complete definitions of the ratings assigned are available at www.careedge.in and in other CARE Ratings Ltd.'s publications.

Detailed description of the key rating drivers

Key rating strengths

Synergies of global collaboration with its parent which is a leading player in styrene business: SIL is currently owned by INEOS group [through 61.19% stake held by ISAPL which had reduced from 75% in April 2022]. IASPL holds leading position in styrenic products such as styrene monomer (SM), polystyrene (PS), styrene-butadiene block co-polymers (SBC), other styrene-based co-polymers (ABS, SAN, etc.) and co-polymer blends. SIL has benefitted from access to technology by virtue of it being a part of the INEOS group. It also helps SIL to compete effectively against large scale producers from South-East Asian countries. SIL's Board of Directors is competent marked by experienced professionals including nominees from INEOS group.

Market leader in ABS and SAN business in India which has diversified application: SIL manufactures various grades of ABS under the brand name 'Absolac' and SAN under the brand name 'Absolan' and has been a pioneer in this field and continues to remain the market leader in both these product segments in India. ABS and SAN are versatile engineering thermoplastic material and their high-impact, ignition-resistant and other properties meet the application needs across a broad range of market segments. ABS finds application across industries such as electrical and electronics, automotive, household consumer durables, information technology etc. while SAN is mostly used in the stationery, cosmetic, packaging, toys and extrusion segments.

Diversified clientele: As articulated by SIL's management, it caters to the ABS requirements of leading automobile manufacturers in India on contractual basis. It benefits from its presence in the specialty grade of ABS where it faces relatively less competition from imports. Apart from automobile sector, SIL caters to the demand from household consumer durable applications along with demand for the other commodity grades of ABS which in turn results in large and diversified customer base.

State-of-the-art manufacturing facilities: SIL has modern manufacturing facilities and a state-of-the-art R&D center located in Gujarat. SIL has an installed capacity of 100,000 MTPA of ABS and 78,000 MTPA of polystyrene as on March 31, 2022. Commencement of enhanced capacity of ABS has resulted in reduced reliance on job-work from December 2019.

Stable demand outlook: In spite of impact of Covid-19, TOI of SIL had remained largely stable at ₹1632.06 crore during FY21 (₹1580.77 crore in FY20) whereas its TOI improved by nearly 34% during FY22 to ₹2179.02 crore on a y-o-y basis on the back of improved demand prospects from key end-user industries. Further, short supply of polystyrene in domestic market from Q2FY21 onwards aided SIL's polystyrene sales volume during FY21 and FY22.

Improvement in profitability during FY21 and FY22, post losses incurred in preceding two years: SIL's profitability has improved from H2FY21 onwards primarily due to sharp rise in prices of ABS, SAN and polystyrene which continued to remain elevated in FY22 as well. SIL's PBILDT margin improved sharply from 9.33% in H1FY21 to 33.55% in H2FY21 aided by elevated polymer prices as well as moderation in its raw material prices. PBILDT margin, though moderated, remained healthy at 23.07% during FY22. Styrene and acrylonitrile are the key raw materials which are majorly imported by SIL whereas butadiene is sourced locally. For manufacturing ABS, butadiene is required to be converted into intermediate product called HRG rubber before it's blending with SAN. Further, the profitability in its polystyrene business had been inherently thin due to its commodity nature and stiff competition from imports at competitive prices. However, profitability of SIL's polystyrene business improved in FY21 and FY22 on the back of supply-side bottlenecks in India arising mainly from closure of a large manufacturing plant on account of an accidental fire.

Comfortable leverage and debt coverage indicators: SIL had drawn term debt of ₹100 crore to undertake capacity expansion of ABS due to which its capital structure had moderated marginally. However, capital structure marked by overall gearing has improved from 0.45 times as on March 31, 2020 to 0.22 times as on March 31, 2021 and it further improved to 0.16 times as on March 31, 2022 on the back of substantial repayment of its term loan and decline in its working capital borrowings aided by healthy cash flow from operations during FY21 and FY22. Its debt coverage indicators also stood comfortable during FY21 and FY22.

Liquidity: Strong

SIL's liquidity is strong marked by expected healthy cash accruals vis-a-vis very minimal debt repayment obligations in FY23 along-with comfortable utilization of its non-fund based working capital limits as at June 2022. With an overall gearing of 0.16 times as on March 31, 2022, SIL has sufficient gearing headroom to raise additional debt. On the back of its strong liquidity, SIL declared significant dividend of ₹355.23 crore in FY22. SIL had healthy cash and bank balance of ₹178 crore as on March 31, 2022 which was, however, largely utilized for payment of interim dividend of around ₹185 crore in May 2022.

Key rating weaknesses

Significant volatility in profitability: Significant volatility has been observed in the operating profitability of SIL over the last five years. SIL's operating profitability marked by PBILDT margin has ranged between less than 1% to more than 25% during the last five years period ended FY22 with even net losses incurred during FY19 and FY20.

Volatility associated with prices of crude-linked raw materials and foreign exchange rate fluctuations: Acrylonitrile and styrene are the major raw materials used in the manufacturing of ABS, SAN and polystyrene. These raw materials are derivatives of crude oil and thereby prone to the risk of inherent volatility in global crude oil prices. Raw material import has generally constituted 70%-80% of its total raw material requirement. Since SIL has negligible export earnings, it is also exposed to foreign exchange rate fluctuations on its imports.

However, formula-based pricing mechanism (mainly in contractual sales arrangement) wherein sales prices are revised on periodic basis depending upon movement in raw material prices and foreign exchange rates helps to protect the profitability of SIL. Further, SIL has an active hedging policy whereby it hedges its foreign currency exposure through forward contract. Also, upon rupee depreciation, prices of substitutes of SIL's product, which are largely imported products, also rise which help the company to pass on increased cost to its customers.

Threat of competitive imports from South-East Asian countries: With predominantly only two domestic players in ABS and SAN industry, SIL is a market leader in India. Nevertheless, majority of the increased demand has been catered through imports from South Korea, Thailand, Malaysia and Taiwan which together account for large share of imports of ABS in India. Imports from Saudi Arabia and UAE are also increasing from last few years. However, proportion of specialty grade ABS is around 75-80% in aggregate sales of ABS and SAN by SIL which provides some competitive edge to it over largely commodity grade imports.

In polystyrene segment, supply shortage since May 2020, due to an accident-induced shutdown of manufacturing facility of one of the major domestic manufacturers of polystyrene, has improved the demand prospects of the other domestic polystyrene manufacturers as witnessed in H2FY21 and FY22.

Compliance with stringent pollution control and fire safety norms, and susceptibility to regulatory risks: Being present in the chemical industry, the operations of SIL are subject to various environment-related regulatory compliances in a stringent manner. Also, pollution-related norms are evolving day-by-day in India. Accordingly, continuous adherence to defined pollution control norms are mandatory for seamless operations. SIL is regularly incurring capex for compliance with defined pollution control norms and has not encountered any adverse observations/closure notice from pollution control departments for a long period of time.

Also, over the last many years, SIL had not encountered any incidence of fire at its plants except the accidental fire reported in March 2022 in a section of SIL's plant located at Nandesari, Gujarat. The fire was extinguished internally, and the plant was brought to safe mode. One worker was injured and was treated at a local hospital. All operations had been discontinued at Nandesari plant till further assessment of the cause and implementation of corrective actions. After completion of repairs and receipt of all statutory and regulatory clearances, the plant operations commenced from May 12, 2022. Due to this, SIL suffered production loss of HRG rubber for over a month. During this period, SIL could cater to its customer's requirement through sourcing from the group's other Asian facilities and imports.

Analytical approach: Standalone

Applicable criteria

[Criteria on assigning Outlook and Credit Watch to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial Ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

About the company

INEOS Styrolution India Limited (SIL), a Gujarat-based ABS, SAN and polystyrene manufacturer was originally incorporated as 'ABS Plastics Ltd' on December 7, 1973. Subsequently, there have been several changes of hands in the ownership of the company amongst various international chemical groups. Currently, INEOS Group through its step-down subsidiary viz. ISAPL holds 61.19% equity stake in SIL with balance stake being held by the public. ABS, SAN and Polystyrene have diversified end applications.

Brief Financials of SIL – Standalone (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
TOI	1632.06	2179.02	NA
PBILDT	410.25	502.80	NA
PAT	280.22	322.54	NA
Overall gearing (times)	0.22	0.16	NA
Interest coverage (times)	28.02	61.09	NA

A: Audited; Prov.: Provisional; NA: Not available; Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	256.00	CARE A+ / CARE A1+ (CWD)

Annexure-2: Rating history (Last three years)

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	256.00	CARE A+ / CARE A1+ (CWD)	-	1)CARE A+; Stable / CARE A1+ (17-Dec-21)	1)CARE A+; Stable / CARE A1+ (23-Dec-20)	1)CARE A+; Stable / CARE A1+ (11-Dec-19) 2)CARE AA-; Stable / CARE A1+ (24-May-19)

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

Annexure-4: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:

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