

INEOS Styrolution India Limited

December 17, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term/ Short Term Bank Facilities	256.00 (enhanced from 177.40)	CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable/ A One Plus]	Reaffirmed
Total Facilities	256.00 (Rupees Two hundred fifty six crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of INEOS Styrolution India Limited (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 diversified clientele and stable demand prospects from end user industries. The ratings also factor established position of the promoter group 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 during FY21 and H1FY22 (FY refers to the period from April 1 to March 31), while its leverage and debt coverage indicators continued to remain comfortable and it has a strong liquidity.

The ratings, however, continue to be constrained by high volatility associated with its profitability, susceptibility of SIL's profitability to volatile prices of its raw materials and 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).

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 Rs.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 increasing 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

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 owned by INEOS group [through 75% stake of INEOS Styrolution APAC Pte Ltd. (SSG), Singapore]. SSG 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.

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

State-of-the-art manufacturing facilities generally operating at comfortable capacity utilization levels

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 September 30, 2021. Commencement of enhanced capacity of ABS has resulted in reduced reliance on job-work from December 2019. SIL's capacity utilization of ABS, SAN and polystyrene which had declined during H1FY21 due to covid-19 induced lockdown, improved during H2FY21 on the back of easing of lockdown restrictions and recovery in demand and later remained comfortable during H1FY22.

Stable demand outlook

SIL's TOI remained largely stable at Rs.1636.42 crore during FY21 (Rs.1580.77 crore in FY20), despite elevated prices of specialties (ABS, SAN) as well as polystyrene, primarily due to adverse impact of Covid-19 on its production and sales volume in Q1FY21. However, sales volume recovered sharply from Q2FY21 onwards with improvement in demand from key end-user industries. Further, short supply of polystyrene in domestic market from Q2FY21 onwards aided SIL's polystyrene sales volume during H2FY21 and H1FY22.

Improvement in profitability during FY21 and H1FY22

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 H1FY22 as well. SIL's PBILDT margin improved sharply from 9.33% in H1FY21 to 32.70% in H2FY21 aided by elevated polymer prices as well as moderation in its raw material prices. PBILDT margin remained healthy at 24.89% during H1FY22 albeit moderated from H2FY21 level due to steady rise in prices of its raw materials. 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. SIL also manufactures General Purpose Polystyrene (PS) and High Impact Polystyrene (HIPS). Further, polystyrene profitability had been inherently thin due to its commodity nature and stiff competition from imports at competitive prices. However, profitability of SIL's polystyrene business also improved in FY21 and H1FY22 on the back of supply-side bottlenecks in India.

Comfortable leverage and debt coverage indicators

SIL had drawn term debt of Rs.100 crore in order 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 further to 0.12 times as on September 30, 2021 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 H1FY22. Its debt coverage indicators also stood comfortable during FY21 and H1FY22.

Liquidity: Strong

SIL's strong liquidity is marked by expected healthy cash accruals vis-a-vis no term loan principal repayment obligations in H2FY22 and FY23. Utilization of its non-fund based working capital limits stood low at around 28% during trailing 12 months ended November 2021. With an overall gearing of 0.12 times as on September 30, 2021, SIL has sufficient gearing headroom to raise additional debt. SIL had healthy cash and bank balance even after payment of special interim dividend of Rs.338 crore during October 2021.

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 FY21.

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; albeit partly offset by growing domestic demand and leadership position of SIL with focus on specialized ABS

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 provide it some competitive edge 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 H1FY22.

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. INEOS Styrolution APAC Pte Ltd. holds 75% equity stake in SIL with balance 25% being held by the public. ABS, SAN and Polystyrene have diversified end applications.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (A)	H1FY22 (UA)
Total operating income	1,580.77	1,636.42	1,054.53
PBILDT	64.66	414.61	262.49
PAT/(Net Losses)	(9.52)	280.22	176.06
Overall gearing (including LC backed creditors) (times)	0.45	0.22	0.12
Interest coverage (times)	4.07	28.32	56.45

A: Audited, UA: Unaudited results published on the stock exchange

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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

Annexure-1: Details of Instruments / Facilities

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

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Type	Current Ratings		Rating history			
			Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Commercial Paper	ST	-	-	-	-	-	1)Withdrawn (27-Nov-18)
2	Fund-based/Non-fund-based-LT/ST	LT/ST*	256.00	CARE A+; Stable / CARE A1+	-	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)	1)CARE AA; Stable / CARE A1+ (04-Dec-18)

* Long Term / Short Term

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 5: 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 CARE Ratings Limited:

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