Styrenix Performance Materials Limited
(earlier known as Ineos Styrolution India Limited)

March 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term / Short Term Bank Facilities	256.00	CARE A+; Stable / CARE A1+	Reaffirmed and removed from Rating Watch with Developing Implications; Stable outlook assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Styrenix Performance Materials Limited (STYRENIX) have been removed from 'Rating Watch with Developing Implications' in view of the conclusion of sale of entire 61.19% equity stake of Ineos Styrolution APAC Pte Ltd. (ISAPL) in STYRENIX to Shiva Performance Materials Private Limited (SPMPL) and subsequent change of ownership and management control of STYRENIX. The change in ownership has no immediate material impact on the business and financial risk profile of the company.

The ratings assigned to the bank facilities of STYRENIX 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 state-of-the-art manufacturing facilities, its improving position in polystyrene business, its diversified clientele and stable demand prospects from end user industries. STYRENIX's profitability improved significantly during FY21 (refers to the period April 1 to March 31) and FY22, however, moderated during 9MFY23, while its leverage and debt coverage indicators continued to remain comfortable and it had strong liquidity as on December 31, 2022. Additionally, new promoter group are the erstwhile owners of the company and have deep understanding of the ABS and SAN business which is expected to help the company to improve its market standing in the medium term. Also, debt availed by the promoter group to acquire controlling stake in STYRENIX is without any recourse to the company and accordingly capital structure and debt coverage indicators of STYRENIX are expected to remain comfortable.

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 STYRENIX'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 STYRENIX. 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 fires.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- 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

- 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

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook on the rating of STYRENIX reflects CARE's expectation of sustenance of its comfortable financial risk profile on the back of stable operations and good demand prospects in the near to medium term.

Key strengths

Market leader in ABS and SAN business in India which has diversified application: STYRENIX 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

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

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 STYRENIX'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, STYRENIX 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: STYRENIX has modern manufacturing facilities and a state-of-the-art R&D center located in Gujarat. STYRENIX 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 STYRENIX 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 STYRENIX's polystyrene sales volume during FY21 and FY22. The demand has continued to remain stable in 9MFY23 with growth of around 13% on a y-o-y basis in its TOI of ₹1756.99 crore.

Improvement in profitability during FY21 and FY22, albeit moderation during 9MFY23: STYRENIX's profitability 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. STYRENIX'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. However, the PBILDT margin moderated further to 11.89% during 9MFY23 mainly due to higher raw material costs. Styrene and acrylonitrile are the key raw materials which are majorly imported by STYRENIX 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 STYRENIX'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: STYRENIX 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 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. Going forward, also its capital structure and debt coverage indicators are expected to remain comfortable.

Liquidity: Strong
STYRENIX's liquidity is strong marked by expected healthy cash accruals vis-a-vis no debt repayment obligations along-with comfortable utilization of its non-fund based working capital limits as at February 2023. With an overall gearing of 0.16 times as on March 31, 2022, STYRENIX has sufficient gearing headroom to raise additional debt. On the back of its strong liquidity, STYRENIX had declared significant dividend of ₹355.23 crore in FY22. STYRENIX had healthy cash and bank balance of over ₹100 crore as on December 31, 2022.

Key weaknesses

Significant volatility in profitability: Significant volatility has been observed in the operating profitability of STYRENIX over the last five years. STYRENIX'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 STYRENIX 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 STYRENIX. Further, STYRENIX has an active hedging policy whereby it hedges its foreign currency exposure through forward contract. Also, upon rupee depreciation, prices of substitutes of STYRENIX'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, STYRENIX 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 STYRENIX 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.

Pledge of entire promoter group holding in STYRENIX: Entire 62.73% equity stake of the new promoter group in STYRENIX is pledged for around Rs.650 crore debt availed for acquisition of this stake in favour of the lenders for this debt which limits the financial flexibility. Although this debt availed at the promoter level is without any recourse to STYRENIX and accordingly, no obligation for servicing of this debt is expected on STYRENIX in any way as articulated by the management. The same is expected to be retired by the promoter group from their own resources.

Environmental, social and governance (ESG) risks: Being present in the chemical industry, Environment plays a critical role for STYRENIX. The operations of STYRENIX 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. STYRENIX 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. In March 2022, there was an incident of accidental fire in a section of its plant located at Nandesari, Gujarat wherein plant was closed down as a precautionary measure and after getting the required clearances it restarted the normal operations from the said plant from May 2022. Under the ages of new promoter group, out of total 6 directors, two are independent directors. Also, even with the change of management, there has been major absorption of earlier human resources at key positions.

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry Classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Styrenix Performance Materials Limited (STYRENIX), a Gujarat-based ABS, SAN and polystyrene manufacturer was originally incorporated as 'ABS Plastics Ltd' on December 7, 1973 by Mr. Rakesh Agarwal and his family members. Subsequently, there had been several change of hands in the ownership of the company amongst various international chemical groups. Lastly, INEOS

Group through its step-down subsidiary viz. Ineos Styrolution APAC Pte Ltd. (ISAPL) was holding 61.19% equity stake in the company with balance stake being held by the public.

On August 01, 2022, Shiva Performance Materials Private Limited (SPMPL, owned by Mr. Rakesh Agarwal and his family members) entered into a share purchase agreement with ISAPL, pursuant to which SPMPL acquired entire equity shares held by ISAPL in the company i.e. 61.19% of the equity share capital of STYRENIX and another 1.54% equity stake in the company through open offer in November 2022. Post acquiring controlling stake in the company, board of directors were changed from November 17, 2022 and lastly name of the company was changed from Ineos Styrolution India Ltd. to Styrenix Performance Materials Ltd. w.e.f. January 05, 2023.

Brief Financials (₹ crore)	FY21 (A)	FY22 (A)	9MFY23 (Provisional)
Total operating income	1,632.06	2,179.02	1,756.99
PBILDT	410.25	502.80	208.99
PAT	280.22	322.54	140.58
Overall gearing (times)	0.22	0.06	NA
Interest coverage (times)	28.02	61.09	52.91

A: Audited; NA: Not Available; Financials are classified as per CARE Ratings' standards.
Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ 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 for the 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+; Stable / CARE A1+	1)CARE A+ / CARE A1+ (RWD) (27-Dec-22) 2)CARE A+ / CARE A1+ (CW with Developing Implications)	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-;

					(10-Aug-22)			Stable / CARE A1+ (24-May-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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