Styrenix Performance Materials Limited

September 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	650.00 (Enhanced from 256.00)	CARE A+; Stable / CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Styrenix Performance Materials Limited (SPML) 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 customised speciality products. The ratings also derive strength from its state-of-the-art manufacturing facilities, its improving position in polystyrene business, its diversified clientele, and stable demand prospects from end-user industries. The ratings also factor comfortable capital structure and debt coverage indicators along-with its strong liquidity.

The long-term rating, however, continues to be constrained by high volatility associated with its profitability led by susceptibility 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 SPML. 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 apart of pledge of the promoter group's entire holding in SPML.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement of PBILDT margin and return on capital employed (ROCE) to above 20% and sustenance of the same in the medium term.
- Optimum utilisation of expanded capacity of ABS and SAN on a sustained basis.

Negative factors

- Decline in the scale of operations marked by total operating income (TOI) lower than ₹1,200 crore on a sustained basis.
- Decline in PBILDT margin to less than 9% on a sustained basis.
- Deterioration in the capital structure marked by overall gearing beyond 0.75x.
- 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 SPML reflects CARE Ratings Limited's (CARE Ratings') expectation of sustenance of its comfortable financial risk profile on the back of stable operations and healthy demand prospects in the near to medium term.

Detailed description of the key rating drivers:

Key strengths

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

SPML 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.

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

Diversified clientele

SPML caters to the ABS requirements of leading automobile manufacturers in India on a contractual basis. It benefits from its presence in the specialty grade of ABS where it faces relatively less competition from imports. Apart from the automobile sector, SPML 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

SPML has modern manufacturing facilities and a state-of-the-art R&D centre located in Gujarat. SPML has an installed capacity of 100,000 MTPA of ABS and 78,000 MTPA of polystyrene as on June 30, 2023. Commencement of the enhanced capacity of ABS has resulted in reduced reliance on job-work from December 2019.

Stable demand outlook

The TOI of SPML grew by 8.4% on a y-o-y basis during FY23 to ₹2,367.83 crore on the back of improved demand prospects from key end-user industries resulting in increase in sales volume by around 20% during the year. CARE Ratings notes that the demand prospects have continued to remain healthy led by steady increase in activity in its diversified end-use industries.

Healthy profitability margins; albeit moderated in FY23 and Q1FY24

SPML's profitability remained high in FY21 and FY22 primarily due to sharp rise in prices of ABS, SAN and polystyrene aided by elevated polymer prices. However, the PBILDT margin moderated during FY23 mainly due to decline in the raw material prices resulting in lower realisations. The PBILDT further moderated in Q1FY24 due to bottoming out of raw material prices and the industry-wide destocking resulting in inventory losses during the quarter. Styrene and acrylonitrile are the key raw materials which are majorly imported by SPML, whereas butadiene is sourced locally. For manufacturing ABS, butadiene is required to be converted into intermediate product called HRG rubber before its blending with SAN. Furthermore, 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 SPML's polystyrene business improved from FY21 onwards 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

Earlier, SPML 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 0.45x as on March 31, 2020 to 0.20x as on March 31, 2023, on the back of repayment of its term loan and decline in its working capital borrowings aided by healthy cash flow from operations during the period. Its debt coverage indicators also stood comfortable during FY23. Going forward also, CARE Ratings expects its capital structure and debt coverage indicators to remain comfortable.

Liquidity: Strong

SPML's liquidity is strong marked by expected healthy cash accruals vis-à-vis no term debt repayment obligations along-with comfortable utilisation of its non-fund-based working capital limits as of July 2023. With an overall gearing of 0.20x as on March 31, 2023, SPML has sufficient gearing headroom to raise additional debt. On the back of its strong liquidity, SPML had declared significant dividend of ₹355.23 crore in FY22 and ₹325.33 crore in FY23. SPML had healthy free cash and bank balance of over ₹100 crore as on March 31, 2023.

Key weaknesses

Significant volatility in profitability

Significant volatility has been observed in the operating profitability of SPML over the last five years. SPML's operating profitability marked by PBILDT margin has ranged between less than 1% and more than 25% during the last five-year period ended FY23 with 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 imports generally constituted 70%-80% of its total raw material requirement. Since SPML 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 a periodic basis depending upon movement in raw material prices and foreign exchange rates helps to protect the profitability of SPML. Furthermore, SPML has an active hedging policy whereby it hedges its foreign currency exposure through forward contract.

Also, upon rupee depreciation, prices of substitutes of SPML's products, which are largely imported products, also rise which helps the company to pass on the 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, SPML 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 SPML which provides some competitive edge to it over largely commodity grade imports.

In the 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.

Pledge of entire promoter group holding in SPML

Entire 62.73% equity stake of the new promoter group in SPML is pledged for debt availed for acquisition of this stake in favour of the lenders of this debt which limits the financial flexibility. This debt availed at the promoter level is without any recourse to SPML, and accordingly, no obligation for servicing of this debt is expected to be on SPML in any way, as articulated by the management. CARE Ratings expects the same to be retired by the promoter group through their own resources.

Environment, social and governance (ESG) risk assessment:

Risk factors	Compliance and action by the company
Environmental	Annual environment audit is conducted by Gujarat Pollution Control Board assigned auditors at all sites. The company's manufacturing sites are certified for ISO 14001 by Bureau Veritas who audits the systems. The company has implemented Green House Gas measures like replacing the conventional lamps with LED lamps, use energy efficient motors and variable frequency drives. The company manages its waste in a legally complaint and sustainable method. All the waste is handled as required by Consent to Operate / Hazardous Waste authorization of the individual sites. The company adopts the strategy of Reduce, Reuse, Recycle, Recovery and Disposal methodology by optimizing and modifying the process from time to time. Continuous improvements in manufacturing process and technology, operating procedures is the key to reduce the generation of hazardous waste at their site. Substitution with less hazardous chemicals also contribute positively. High calorific value waste is sent for coprocessing. Although none of the company's operations / offices are falling in or around ecologically sensitive areas, the company has obtained environment clearance for its manufacturing sites at Dahej, Nandesari & Katol from State Environment Impact Assessment Authority (SEIAA), Gujarat state and Ministry of Environment, Forest and Climate Change (MOEF). For Dahej, Katol and Moxi sites, the treated water meeting Consolidated Consent and Authorization (CCA) norms from sewage and effluent treatment plants is used for gardening & green belt within the premises.
Social	There was no work hour lost time during the year. There were no complaints made by employees on working conditions and health and safety during FY23.
Governance	Around 50% of the SPML's board comprises of independent directors. The company has a strong internal review and assessment mechanism for evaluating the policy implementation, identifying gaps, and addressing them by adopting appropriate solutions. For the year FY23, the company has obtained services of GovEva (an independent agency) to review and evaluate working of existing policy of the company.

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

SPML, a Gujarat-based ABS, SAN and polystyrene manufacturer was originally incorporated as 'ABS Plastics Ltd' on December 7, 1973, by Rakesh Agarwal and his family members. Subsequently, there have been several changes of hands in the ownership of the company amongst various international chemical groups. Finally, the 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 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 SPML and another 1.54% equity stake in the company through open offer in November 2022. Post acquiring controlling stake in the company, the board of directors were changed from November 17, 2022, and lastly, the 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)	FY22 (A)	FY23 (A)	Q1FY24 (Prov.)
Total operating income	2,179.02	2,367.83	545.89
PBILDT	502.80	275.47	53.06
PAT	322.54	183.01	32.44
Overall gearing (times)	0.16	0.20	NA
Interest coverage (times)	61.09	51.73	71.70

A: Audited; Prov.: Provisional, NA: Not Available; 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 facilities: Detailed explanation of covenants of the rated 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	-	-	-	650.00	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 2023-2024	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	650.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (24-Mar-23) 2)CARE A+ / CARE A1+ (RWD) (27-Dec-22) 3)CARE A+ / CARE A1+ (CW with Developing Implications) (10-Aug-22)	1)CARE A+; Stable / CARE A1+ (17-Dec-21)	1)CARE A+; Stable / CARE A1+ (23-Dec-20)

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated 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:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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