Styrenix Performance Materials Limited

December 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term / Short-term bank facilities	650.00	CARE A+ / CARE A1+ (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed its ratings assigned to bank facilities of Styrenix Performance Materials Limited (SPML) on 'Rating Watch with Developing Implications'.

The rating action follows announcement by SPML on December 09, 2024, that its board has approved acquisition of 100% shareholding of INEOS Styrolution (Thailand) Co., Limited (INEOS Thailand) from its existing shareholders, including INEOS Styrolution Group GmbH, INEOS Styrolution APAC Pte. Limited and INEOS Styrolution Hong Kong Company Limited, for a cash consideration of US $20 million, subject to customary adjustments as per the terms of the share sale and purchase agreement (SPA). The acquisition shall be done through SPML's step-down subsidiary, Styrenix Polymers (Thailand) Co., Ltd. The acquisition is expected to be completed in early 2025, subject to completion of customary conditions precedent as specified in the SPA.

INEOS Thailand is engaged in manufacturing of specialty acrylonitrile butadiene styrene (ABS), high heat ABS, and styrene acrylonitrile (SAN) polymers with an installed capacity of 85 kilo tonnes per annum (KTPA) for ABS, 100 KTPA for SAN and 31 KTPA for High Rubber Graft (HRG) rubber and has a presence across Thailand, South-East Asia (SEA) and China. SPML expects growth in its scale of operations with this acquisition as the target entity is in the similar line of business and it is expected to provide a global presence, access to better technology, synergy benefits, access to newer markets. CARE Ratings will continue to monitor developments on this acquisition and will take a view on the ratings of SPML once there is fair amount of clarity about the impact of this acquisition on the business and financial profile and all requisite approvals are in place.

The ratings of SPML continue to derive strength from SPML's established and long track record of operations, leadership position in the domestic ABS and SAN co-polymer markets with focus on customised speciality products, established position in the Polystyrene (PS) market with state-of-the-art manufacturing facilities, diversified application of products, 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 ratings, however, remains constrained on account of susceptibility of profitability due to volatile raw material prices and foreign exchange rate fluctuations associated with imported raw materials, competition from imports, presence in a competitive and cyclical polymer 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

- Timely implementation and stabilisation of capacity expansion projects within envisaged cost.
- Maintaining healthy capital structure marked by overall gearing below 0.50x 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.
- Deterioration in profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin to less than 9% on a sustained basis.
- Deterioration in overall gearing beyond 1.00x on a sustained basis.

Analytical approach: Standalone

Detailed description of 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. The company has developed and introduced two new brands, 'STYROLOY' for blended products and 'ASALAC' for Acrylonitrile Styrene Acrylate (ASA)

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

in FY24, which is expected to further enhance its competitive positioning in the industry. The company also has an established presence in PS segment, which is sold in the brand name of 'STYRENIX PS'.

The company has an installed capacity of 85 KTPA of ABS and 100 KTPA of Polystyrene (PS) (expanded from 66 KTPA in September 2024) as on September 30, 2024. The company operates modern manufacturing facilities, and a state-of-the-art R&D centre in Gujarat. ABS and SAN are versatile engineering polymer material and is a preferred choice for structural applications due to their chemical & physical properties.

The products of the company serve various industry segments like automobile sector, electrical and electronics, household consumer durables, construction, healthcare products, stationery, cosmetic, packaging, toys and extrusion segments. Demand of the ABS and PS is expected to witness a healthy growth supported by growth in the end user industry.

Satisfactory operating performance

During FY24, total sales volume of SPML increased by 11 %. TOI however declined by 6% to ₹2222 crore during FY24 (FY23: ₹2372 crore) mainly due to moderation in product prices. PBILDT margin remained stable at 11.9% in FY24 (FY23: 11.6%) supported by increased sales volume and cost optimisation.

Operating performance remained healthy in H1FY25. During the period, revenue grew by 19% y-o-y to ₹1,352 crore supported by 6% growth in volume sales and 12% growth in realization, while PBILDT margin improved to 13.94% (H1FY25: 11.75%) supported by better realisations, growth in scale of operations and better absorption of fixed overheads.

CARE Ratings believes the SPML's scale of operations is expected to witness a healthy growth of 20%-25% in FY25 led by healthy growth in volumes on the back of debottlenecking of capacities coupled with efficiency in production operations, while profitability margin is expected to continue to remain steady supported by improvement in the scale and efficiency in operations

Healthy credit profile

SPML has a very comfortable capital structure marked by an overall gearing (including acceptances) of 0.07x as on March 31, 2024 (March 31, 2023: 0.2x), while total debt to gross cash accruals (TD/GCA) stood at 0.25x in FY24 (FY23: 0.64x). The company has a nominal term debt of ~₹10 crore, while there is a nil fund-based working capital utilisation. Credit profile witnessed an improvement in FY24 supported by a decline in letter of credit (LC) backed creditors. Even with its planned large size capex, which is expected to be majorly funded by its internal accruals, its capital structure and debt coverage indicators are expected to remain comfortable.

Liquidity: Strong

SPML's liquidity is strong marked by healthy cash accruals vis-à-vis nil term debt repayment obligations in FY25. There is a negligible utilisation of its non-fund-based working capital limits as on date. With an overall gearing of 0.07x as on March 31, 2024, SPML has sufficient gearing headroom to raise additional debt. Also, the company had free liquidity of ₹54 crore as on September 30, 2024. Proposed capex is planned to be spent over the next 2-3 years against which cash accruals and its available liquidity are expected to remain adequate with low reliance on the debt being expected.

Key weaknesses

Volatility associated with prices of crude-linked raw materials and foreign exchange rate fluctuations

SPML's profitability remains susceptible to volatility in raw material prices and realisation, which impacts spreads. Styrene and Acrylonitrile are the major raw materials used in manufacturing ABS, SAN and polystyrene. Styrene and Acrylonitrile materials are primarily imported, while the other key raw material, butadiene is sourced locally. These raw materials are derivatives of crude oil and prone to the risk of inherent volatility in global crude oil prices. In the past, raw material prices had observed significant volatility leading to very low profit margins in few quarters. Raw material imports accounted for over 90% of its requirement in FY24. Given the dependence on imports, the company also remains exposed to the risk of foreign exchange rate fluctuations, which can have an impact on the pricing of raw materials.

The risk is largely offset by the formula-based pricing mechanism (mainly in contractual sales arrangement), wherein sales prices are revised on a periodic basis depending upon raw material procurement prices. Furthermore, SPML has an active hedging policy, whereby it hedges its foreign currency exposure through forward contracts. 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 increased cost to its customers.

Threat of competitive imports from South-East Asian countries; Expectations of increase in competitive intensity

India remains dependent on imports for meeting the domestic demand of ABS. ~45% of the demand is met through imports, which are from Taiwan and South Korea, which together accounted for ~93% imports of ABS in FY24, while imports from other countries included Thailand and Malaysia, together contributed ~5% of the imports. There is a large capacity expansion planned

domestically by the domestic players, including SPML in ABS and PS, which is expected to result in a substantial increase in the overall capacity in the domestic market.
Likely opportunity of absorption of incremental capacity in the domestic market, given the current reliance on imports in view of lower capacity, coupled with focus of the company on specialty grade, partially offsets the risk of imports and higher competitive intensity.

Risks associated with large size capex plans
The company has envisaged large increase in the installed capacity of ABS and PS at a total cost of ₹650 crore, which is expected to be funded largely by its internal accruals and available liquidity with need-based reliance on debt. Under the first phase of expansion, the company shall increase capacity through debottlenecking. The company has completed the PS capacity expansion by 34 KTPA to 100 KTPA in Sep 2024 with a minor capital expenditure and is in the process of increasing the capacity of ABS to 105 KTPA by end-FY25. Under the second phase, the capacity shall be enhanced to 150 KTPA for PS and 210 KTPA for ABS post completion of feasibility studies. Capacity enhancement and phase wise capex to be incurred shall, however, be decided basis the engineering studies. Capex size remains substantial against its net worth. Delay in commencement of commercial operations or delay in ramp up of operations could have an impact on the return indicators of the company.

Environment, social, and governance (ESG) risks and its mitigants

Risk factors	Compliance and action by the company
Environmental	To reduce GHG emissions, the company is leading an environmental initiative in Vadodara, establishing green belts covering 29,922 square meters around its industrial estate and neighboring villages like Katol, Nandesari, and Moxi. These green belts enhance local ecosystems and showcase a commitment to ecological stewardship. Additionally, to control acidic emissions, the company has done instalation of HCL tank scrubber at Nandesari site. SPML's commitment to reducing its carbon footprint and promoting cleaner energy alternatives, energy efficiency includes transitioning from liquid fuels to natural gas, switching to LED lights for street lighting, replacing CFL or MLL lights, use of biodigesters to convert food waste to sustainable natural gas for cooking etc. For reducing/minimising water consumption, the company has installed STP at its Katol and Moxi unit and the treated water is reused for gardening and green belt. Treated wastewater from Effluent Treatment Plant (ETP) at Dahej and Katol is reused for gardening and green belt. The company has conducted environmental aspect and impact studies for all the activities and adequate control measures like standard operating procedures, engineering controls like pollution control measures/equipment’s are adopted as required. Also, periodic environmental monitoring plan for manufacturing sites is in place and implemented.
Social	The company gives paramount importance and is committed to workplace safety and process safety management and an accepted routine practice. The company maintains good safety record with only 1 recordable injury, "Zero" High consequence work related injury, for last two financial years FY23 and FY24. The company adopts a supportive work environment through regular training program to improve employee skill sets and also safety awareness. The company avoids threats related to employee health, safety & emergency management by regular asset care audits, operational audits, process safety inspections, risk appraisal using scientific methodologies such as HAZOP, JSA, and environmental impact assessments. Actions from risk assessment are implemented including with additional budget provision, to reduce risks to acceptable limits. Workforce training, simulated drills for disaster management engagement with the neighbourhood, and research and development are implemented to increase process safety. The company has established a detailed procedure for reporting and investigating unsafe conditions, incidents and near misses, as well as managing and reviewing corrective and preventive actions. Moreover, the company has implemented the Behavioral Based Safety Observation (BBSO) program to address and reduce behavioral risk factors. Additionally, sites have Safety Health and Environmental committee, where issues are raised by stakeholders and actions are taken for prevention.
Governance	50% of the SPML’s board consists of independent directors. Various department heads and business heads periodically review and update policies, with final approval from management or the board.

Applicable criteria

[Definition of Default]
[Liquidity Analysis of Non-financial sector entities]
[Rating Outlook and Rating Watch]
[Manufacturing Companies]
[Financial Ratios – Non financial Sector]
[Short Term Instruments]

About the company and industry

Industry classification

Macroeconomic 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 Limited' on December 7, 1973, by Rakesh Agarwal and his family members. Subsequently, there had been several changes of hands in the ownership of the company among various international chemical groups. Lastly, 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.
Shiva Performance Materials Private Limited (SPMPL, owned by Rakesh Agarwal and his family members) acquired 61.19% of the equity share capital of SPML from ISAPL, and another 1.54% equity stake through an open offer in November 2022. Post acquisition, the board of directors were changed from November 17, 2022, and the name of the company was changed from Ineos Styrolution India Limited to Styrenix Performance Materials Limited w.e.f. January 05, 2023.
In June 2024, the promoters sold 16.5% stake in SPML. The proceeds from the stake sale has been utilised by the promoter company to repay the debt, which had been availed for the acquisition of stake from ISAPL. Consequent to the said debt repayment, pledge on the promoter's equity stake in SPML has also been released. As on September 30, 2024, the promoters held 46.2% equity stake in the company.

Brief Financials (₹ crore)	FY23 (A)	FY24 (A)	H1FY25 (UA)
Total operating income	2,372.27	2,222.17	1,351.93
PBILDT	275.47	264.35	188.52
PAT	183.01	173.18	131.29
Overall gearing (times)	0.20	0.07	NA
Interest coverage (times)	51.73	74.46	128.24

A: Audited; UA: Unaudited, NA: Not Available; Note: these are latest available financial results
Financials are reclassified 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

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	650.00	CARE A+ / CARE A1+ (RWD)

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	650.00	CARE A+ / CARE A1+ (RWD)	1)CARE A+; Stable / CARE A1+ (25-Sep-24)	1)CARE A+; Stable / CARE A1+ (06-Sep-23)	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)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of 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 lender-wise details of bank facilities please [click here](#)

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