INEOS Styrolution India Limited

December 23, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities	177.40	**CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable/ A One Plus]**	**Reaffirmed**
Total	**177.40 (Rupees One hundred seventy seven crore and forty lakh 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) & Styrene Acrylonitrile (SAN) co-polymer markets with focus on customized speciality products, diversified clientele, steady 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, established arrangement for procurement of key raw materials along with its comfortable leverage and improved profitability in H1FY21 (FY refers to the period from April 1 to March 31). CARE also notes that SIL has not availed any moratorium as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which underlines its adequate liquidity profile.

The above rating strengths, however, continue to be constrained by susceptibility of SIL's moderate profitability to volatile raw material prices as they are derivatives of crude oil and foreign currency exchange rate fluctuations associated with imported raw materials along with inherently low profit margin of its polystyrene business. The ratings are further constrained by limited pricing power of SIL due to strong competition from cheaper imports (especially from South East Asia) and capacity constraint for manufacturing HRG rubber which is a key intermediate product.

Rating Sensitivities

Positive Factors

- Improvement in profitability margins marked by PBILDT margin of 15% on a sustained basis
- Improvement in ROCE at more than 15% on a sustained basis
- Timely enhancing the installed capacity for HRG rubber so as to improve its operating profitability
- More than 80% utilization of expanded capacity of ABS & SAN on a sustained basis
- Improvement in demand prospects from auto industry

Negative Factors

- Decline in profitability margins marked by PBILDT margin of less than 5% on a sustained basis
- Deterioration in capital structure marked by overall gearing beyond 0.75 times
- Decline in scale of operations marked by TOI lower than Rs.1,200 crore on a sustained basis

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. Moreover, it also helps SIL to compete effectively against large scale producers from South – East Asian countries. Board of Directors including Independent Directors of SIL 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'**, **'Novodur'** and **'Luran'**, 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, business machines, etc. and SAN is mostly used in the stationery, novelties, cosmetic, packaging, toys and extrusion segments.

[1]*Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

Diversified and reputed clientele
SIL 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 lower competition from imports. Apart from automobile, SIL also caters to the demand from household consumer durable application and other commodity grades of ABS which in turn results in large and diversified customer base. Moreover, with easing of Covid-19 pandemic induced lockdown restrictions there has been gradual pickup in demand from both automobile and consumer durable segments.

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. Upon completion of its capacity expansion capex of ABS in December 2019, SIL has an installed capacity of 114,000 MTPA of ABS, 100,000 MTPA of SAN and 78,000 MTPA of Polystyrene as on March 31, 2020. Capacity utilization of ABS stood comfortable, while captive consumption of SAN in the manufacturing of ABS also remained stable during FY20. Commencement of enhanced capacity of ABS has resulted in reduced reliance on job-work. Capacity utilization of ABS had moderated during Q1FY21 due to Covid-19 induced lockdown restrictions, however with gradual relaxation of lockdown norms and improved demand prospects from auto industry, capacity utilization of ABS & SAN again improved in Q2FY21. Capacity utilization of Polystyrene continued to remain at around 60% till FY20 however on the back of short supply in domestic market, capacity utilization of SIL improved to ~73% in Q2FY21.

Comfortable leverage and adequate debt coverage indicators
SIL had drawn term debt of Rs.100 crore in order to undertake capacity expansion of ABS due to which Debt-Equity ratio of SIL had moderated marginally. However, capital structure marked by overall gearing has improved from 0.43 times as on March 31, 2019 to 0.36 times as on March 31, 2020 and further improved to 0.19 times on the back of decline in its working capital borrowings upon good cash flow from operations during FY20 & H1FY21. Also, its debt coverage indicators stood adequate upon improvement of profitability during H1FY21, with TD/GCA and interest coverage of 1.57 years and 7.91 times respectively (as against 4.06 years and 4.06 times during FY20).

Liquidity: Adequate
Liquidity of SIL is marked by strong accruals of Rs.54.53 crore during FY20 and Rs.37.95 crore in H1FY21 against debt repayment obligations of Rs.35 crore. Further, it had available liquid investments to the tune of Rs.94.84 crore as on September 30, 2020. With an overall gearing of 0.19 times as of September 30, 2020, the issuer has sufficient gearing headroom, to raise additional debt. As on Sept. 30, 2020, its bank lines stood entirely unutilized which is more than adequate to meet its incremental working capital needs over the next one year. Its current ratio was comfortable at 1.73 times as on March 31, 2020. Also, due to its adequate liquidity, SIL has not availed any loan moratorium on its debt allowed by RBI under Covid 19 relief package.

<u>Key Rating Weaknesses</u>
Moderate profitability due to demand slowdown from auto industry, HRG rubber capacity bottleneck and inherently thin profitability in polystyrene business; albeit improvement witnessed in H1FY21
On the back of weak demand from auto sector (contributing 40-45% of total sales) during FY20, SIL witnessed moderation in TOI by ~25% to Rs.1,580.64 crore as against Rs.2,100.79 crore during FY19. ABS comprises of Styrene (65%, imported), Butadiene (20%, sourced from domestic supply) and Acrylonitrile (15%, imported). For manufacturing ABS, Butadiene is required to be converted into intermediate product called HRG rubber before it's blending with SAN. However, SIL has faced capacity constraint for manufacturing its intermediate product HRG rubber and hence with increase in sales volume of ABS, direct import of costlier HRG rubber has increased which in turn has increased overall cost of production for SIL resulting into squeezed margins. Moreover, SIL was dependent on job-work of finished products. However, commencement of enhanced compounding capacity of ABS has resulted in decline in reliance on job-work and improved profitability for H1FY21.
SIL also manufactures General Purpose Polystyrene (PS) and High Impact Polystyrene (HIPS). The performance of this segment has remained moderate with marginal profit of Rs.4.40 crore during FY20. Polystyrene being commodity nature of product faces higher imports at competitive prices which had hampered the financial performance of Polystyrene segment till FY20.
On the back of subdued performance of both its specialty (ABS) & Polystyrene divisions, profitability of SIL remained moderate marked by PBILDT margin of 4.05% during FY20 (0.94% during FY19). Its ROCE was also subdued during the past two years-ended FY20. SIL reported loss after tax of Rs.9.52 crore during FY20 due to exceptional item of Rs.37.95 crore pertaining to leasehold land wherein SIL has received provisional order from relevant authority demanding transfer fee and non-utilization of land charges. However, SIL's management is in the process of evaluating various remedial measures that can be taken. Also, there has been no cash outflow pertaining to this item. Accordingly, SIL's GCA improved from 8.44 crore during FY19 to Rs.54.63 crore during FY20.
On account of nationwide lockdown, TOI of the company moderated to Rs.515.29 crore during H1FY21 as against Rs.883.96 crore during H1FY20. However, with improvement in demand from end user industry, commencement of

additional ABS compounding capacity, decline in raw material prices with relatively steady sales realization and short supply of Polystyrene in domestic market has resulted in improved profitability of the company marked by PBILDT margin of 9.34% during H1FY21 as against 4.84% during H1FY20.

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

Acrylonitrile, Butadiene and Styrene are the three major raw materials used in the manufacturing of ABS, SAN and Polystyrene and all these are derivatives of crude and thereby subject to the risk of volatility in global crude prices. Raw material import has generally constituted 90% of its total raw material requirement. Since SIL has negligible export earnings, it is exposed to foreign exchange rate fluctuations on its imports. During FY19, profitability of SIL had suffered mainly due to sharp correction in prices of Styrene by around 30%. 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 protect the profitability of SIL to an extent. SIL uses various foreign currency facilities available to it for import of raw materials. As articulated by the company management, SIL has a dynamic hedging policy whereby it hedges its foreign currency exposure through forward contract. Also, upon rupee depreciation, prices of substitutes of SIL, 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. After witnessing, ~22% rise in imports of ABS in India during FY19, import of ABS in India declined by ~12% during FY20 which has resulted in improved profitability margins of the domestic manufacturers during FY20. Proportion of specialty grade ABS is around 75-80% in aggregate sales of ABS and SAN by SIL which provide it with some competitive edge over imports. Furthermore, in polystyrene segment, SIL has faced competition in the form of higher imports from Middle Eastern countries (like Iran) at competitive price which led to its continued subdued performance during FY20. However, during H1FY21, upon decline in prices of styrene (key raw material) and supply shortage due to plant shutdown of one of the major domestic manufacturers of polystyrene, it has resulted in significant improvement in profitability for polystyrene division.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning 'outlook' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-Financial Sector Entities
Rating Methodology Manufacturing Companies
Financial Ratios-Non Financial Sectors

About the company

INEOS Styrolution India Limited [SIL, erstwhile Styrolution ABS (India) Ltd. (SAI)], the 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)	FY19 (A)	FY20 (A)
Total operating income	2,100.79	1,580.64
PBILDT	19.77	64.53
PAT / (Net losses)	(12.47)	(9.52)
Overall gearing(including LC backed creditors) (times)	0.43	0.36
Interest coverage (times)	1.38	4.06

A: Audited

As per the published provisional financial results for H1FY21, SIL has reported TOI of Rs.515.29 crore (H1FY20: Rs.883.96 crore) with PAT of Rs.15.82 crore (H1FY20: Rs.19.17 crore).

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure - 1: Details of Facilities

Name of the Instrument	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	-	-	-	177.40	CARE A+; Stable / CARE A1+

Annexure - 2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	-	1)Withdrawn (11-Apr-17)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	-	1)Withdrawn (11-Apr-17)
3.	Commercial Paper	ST	-	-	-	-	1)Withdrawn (27-Nov-18)	1)CARE A1+ (14-Nov-17) 2)CARE A1+ (11-Apr-17)
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	177.40	CARE A+; Stable / CARE A1+	-	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)	1)CARE AA+; Stable / CARE A1+ (14-Nov-17) 2)CARE AA+; Stable / CARE A1+ (11-Apr-17)

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

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

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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