Ineos Styrolution India Limited

April 11, 2017

Ratings

Instruments/Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term/Short-term Bank Facilities	177.40	**CARE AA+; Stable / CARE A1+ [Double A Plus; Outlook: Stable/ A One Plus]**	**Reaffirmed**
Total	**177.40 (Rupees One hundred seventy seven crore and forty lakh only)**		
Commercial Paper (CP) issue	100.00	**CARE A1+ [A One Plus]**	**Assigned**
Total	**100.00 (Rupees One hundred crore only)**		

Details of instruments/facilities in Anneuxre-1

Detailed Rationale

The ratings continue to draw comfort from long and established track record of Ineos Styrolution India Limited (SIL) with leadership position in the Indian Acrylonitrile Butadiene Styrene (ABS) and Styrene Acrylonitrile Copolymer (SAN) markets, well diversified clientele and sustained demand from user industries especially two wheeler, automobile and consumer durable industries. The ratings also take into account the established position of the promoter group of SIL in the styrene based polymers globally, its state of the art manufacturing facilities operating at comfortable level, established arrangement for procurement of key raw materials and comfortable capital structure. The ratings also take cognizance of the amalgamation of Styrolution India Pvt. Ltd. (SIPL) with SIL.

The long term rating, however, continues to be constrained by its moderate profitability, susceptibility of its profitability to volatile raw material prices which are derivatives of crude oil, foreign currency exchange rate fluctuations associated with imported raw materials, addition of low profit margin polystyrene business upon amalgamation of SIPL, threat of imports from South East-Asian countries and increased competitive pressure.

SIL's ability to improve its profitability in the light of volatility in its raw material prices and foreign exchange rate fluctuations while maintaining its comfortable capital structure shall be the key rating sensitivities. Any large sized predominantly debt-funded capex shall also be a key rating sensitivity.

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

Upon exit of BASF from the earlier JV, SIL is now fully owned by Ineos group [through Ineos Styrolution APAC Pte Ltd. (ISAPL)]. ISAPL 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, AMSAN, ASA, MABS) and co-polymer blends. SIL has benefitted from access to technology by virtue of it being a part of the Ineos group. Moreover, it helps SIL to compete more effectively against large scale producers from South – East Asian countries through enhanced efficiency. Board of Directors of SIL has nominees from the experienced Ineos group.

Market leader in ABS and SAN business in India

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, business machines, etc. and SAN is mostly used in the stationery, novelties, cosmetic, packaging, toys and extrusion segments. The automotive and household appliances segment constitutes nearly 70% of ABS business in India. With predominantly only two domestic players in ABS and SAN industry, SIL is a market leader in India with a market share of around 50%. Balance demand is met by the second largest player in the industry and through imports.

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

State of the art manufacturing facilities operating at comfortable capacity utilisation levels

SIL has modern manufacturing facilities and a state-of-the-art R&D centre located in Gujarat. Capacity utilisation of ABS and SAN has remained stable at 83% and 65% respectively during FY16. Captive consumption of SAN in the manufacturing of ABS has remained stable at around 80% during FY16 mainly because of sustained demand for ABS. Looking at the growing demand, installed capacity of SAN was enhanced from 80,000 MTPA to 1,00,000 MTPA in recent past. The expansion also required additional rubber capacity, since majority of SAN and rubber goes as raw material into ABS production as captive consumption. Accordingly, SIL has already completed a project and enhanced its rubber capacity from 19,000 MTPA to 27,000 MTPA. Further, SIL has land of around 15 acre available for future capacity expansion which was previously lying under SIPL. The same is likely to be utilized to expand the capacity of ABS going forward. Apart from capacity expansion of ABS, SIL has plans to incur capex of around Rs.40 crore during FY17 pertaining to modification in its existing ABS & SAN capacity which is proposed to be funded out of internal accruals.

Comfortable leverage and debt coverage indicators

Capital structure of SIL has remained comfortable with zero long term debt and overall gearing of 0.33 times as on March 31, 2016 despite additional debt coming on the books of SIL post amalgamation of SIPL with SABS. Its PBILDT interest coverage stood comfortable at 8.47x during FY16 while its Total Debt/GCA was moderate at 2.38x during the year. The average utilization of its sanctioned working capital limits for Rs.177.40 crore remained at around 59% during the trailing 12 months ended Feb. 2017 Further, its current ratio stood comfortable at 1.67x as on March 31, 2016.

Key Rating Weaknesses

Moderate profitability

PBILDT margin of SIL has marginally improved from 4.30% during FY15 to 6.00% during FY16 mainly on account of availability of expanded capacity along-with better economies of scale and due to lower management fees charged by its parent; however it continued to remain at a moderate level. SIL has started giving job work for compounding of ABS resin to the qualified vendors in Pune and Gurgaon (near automotive hubs) to manage just-in-time delivery requirement of the customers without expanding its own ABS capacity. It has also led to higher capacity utilization of expanded capacity of SAN and rubber.

Volatility associated with crude prices and foreign exchange rate fluctuations

Acrylonitrile, Butadiene and Styrene are the three major raw materials used in the manufacturing of ABS, SAN and Styrene and all of these are derivatives of crude and subject to the risk of volatility in global crude prices. These three raw materials together comprised 89% of its total raw material cost during FY16. The average cost of raw material consumed for Acrylonitrile, Styrene and Butadiene decreased by 22.15%, 25.42% and 16.86% respectively during FY16 as compared to FY15 mainly because of decline in crude prices. Raw material imports have increased to 95% of its total raw material requirement during FY16 as compared to 89% in FY15. Since SIL has negligible export earnings, it is exposed to exchange rate fluctuations on its imports. SIL uses buyer's credit for import of raw materials. As on March 31, 2016, SIL had Rs.98.71 crore buyer's credit outstanding towards import of raw materials whereby it is exposed to exchange rate fluctuations. However, till date, SIL has been able to broadly pass on increase in raw material prices to its customers due to good demand for its products and established business relationships. Also, upon rupee depreciation, prices of substitutes of SIL, which is largely imported products, also rise which help the company to pass on increased cost to its customers.

Threat of imports from South-East Asian countries and competitive pressure

ABS and SAN are highly specialized engineering thermoplastic resins. SIL continues to be the market leader in ABS market with nearly 50% market share. Balance demand is met by the second largest player in India and through imports. Over the last three years, market share of SIL in the Indian market has remained relatively stable despite increase in overall market size. The surge in imports of ABS in India may put marginal pressure on realisation of SIL in short to medium term; although imported products are largely of commodity (Black & white) grade whereas SIL has large presence in speciality (coloured) products. Market share of import has remained stable at around 34% through FY13 to FY16 (refers to the period April 1 to March 31). Korea is one of the largest exporters of ABS accounting for around 79% of the total imports in India during FY16. Korea, Malaysia, Taiwan and China together account for more than 89% of the total imports of ABS in India. However, the demand for ABS and SAN has been growing steadily from two wheeler, automobile and consumer durable industries in India.

Analytical approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Criteria for Short Term Instruments]
[CARE's methodology for manufacturing companies]
[Financial ratios - Non- Financial Sector]

About the Company
Ineos Styrolution India Limited (SIL, erstwhile Styrolution ABS (India) Ltd. (SABS)), the Gujarat-based Acrylonitrile Butadiene Styrene (ABS) and Styrene Acrylonitrile (SAN) 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. (ISAPL) holds 75% equity stake in SIL with balance 25% being held by the public. Earlier it used to be a 50:50 Joint Venture (JV) between UK based Ineos group and Germany based BASF group. However, in November 2014, Ineos group acquired the stake of BASF in this company. SIL has an installed capacity of 80,000 MTPA of ABS, 100,000 MTPA of SAN and 78,000 MTPA of Polystrene as on March 31, 2016.
Styrolution India Pvt. Ltd. (SIPL) was earlier a part of BASF group. However, upon global JV between Ineos group & BASF group, the business of SIPL was brought under the ambit of ISAPL and accordingly it was made a 100% subsidiary of SABS w.e.f. March 1, 2014 with SABS making equity investment of Rs.100.99 crore in the company. SIPL was engaged in the business of manufacturing polystyrene having its plant located at Dahej, Gujarat. Subsequently, on February 26, 2016, the Hon'ble High Court of Gujarat sanctioned the scheme of amalgamation between SIPL and SABS and their respective shareholders and creditors with an appointed date of April 01, 2015. Afterwards, on March 18, 2016 the name of SABS was changed to SIL.

During FY16 (FY refers to the period April 01 to March 31), SIL reported a total operating income of Rs.1598.09 crore [FY15 (consolidated, FY refers to the period January 1 2014 to March 31 2015): Rs.2042.05 crore] with a PAT of Rs.62.77 crore (FY15: PAT of Rs.18.93 crore). As per unaudited results for 9MFY17, SIL reported a total operating income of Rs.1222.77 crore with a PAT of Rs.39.59 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

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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Annexure-1: Details of Instruments/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	NA	NA	NA	177.40	CARE AA+; Stable / CARE A1+
Commercial Paper	NA	NA	NA	100.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based/Non-fund-based-LT/ST	LT/ST	177.40	CARE AA+; Stable / CARE A1+	-	1)CARE AA+ / CARE A1+ (20-Oct-16)	1)CARE AA+ / CARE A1+ (21-Oct-15)	1)CARE AA+ / CARE A1+ (21-Jul-14) 2)CARE AA+ / CARE A1+ (08-Jul-14)
2.	Commercial Paper	ST	100.00	CARE A1+	-	-	-	-

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