

Ineos Styrolution India Limited

November 14, 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)	Reaffirmed

Details of instruments/facilities in Annexure - 1

Detailed Rationale & Key Rating Drivers

The ratings continue to draw comfort from the established and long track record of Ineos Styrolution India Limited (SIL) with its leadership position in the Indian Acrylonitrile Butadiene Styrene (ABS) & Styrene Acrylonitrile (SAN) copolymer markets with focus on customized specialty products, well diversified clientele and favorable demand prospects from end user industries especially two wheeler, automobile, consumer durable and refrigeration liners. 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, established arrangement for procurement of key raw materials, comfortable leverage and strong debt protection as well as liquidity indicators.

However, the above rating strengths are constrained by SIL's 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, low profit margin of polystyrene business and threat of imports from South East-Asian countries.

SIL's ability to timely execute planned expansion and generate envisaged benefits thereof, improve its profitability in the light of volatility in its raw material prices and foreign exchange rate fluctuations while managing working capital requirements and maintaining its comfortable leverage shall be the key rating sensitivities.

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 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, 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 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' 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,

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

novelties, cosmetic, packaging, toys and extrusion segments. The automotive and household appliances segment constitutes nearly 70% of ABS business in India.

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. SIL has an installed capacity of 80,000 MTPA of ABS, 100,000 MTPA of SAN and 78,000 MTPA of Polystyrene as on March 31, 2017. Capacity utilisation of ABS and SAN declined marginally during FY17 partly due to short supply of butadiene in Q1FY17 and partly due to shut down of plant for routine maintenance. Captive consumption of SAN in the manufacturing of ABS has remained stable during FY17 mainly because of sustained demand for ABS. SIL has now planned to expand its ABS compounding capacity by 34,000 MTPA at its Moxi plant at a tentative cost of Rs. 130 crore to be funded through internal accruals and/or borrowing from Ineos group. The project is estimated to be completed in couple of years.

Comfortable leverage and strong debt coverage indicators: Capital structure of SIL has remained comfortable with zero long term debt and overall gearing of 0.36 times as on March 31, 2017. Its PBILDT interest coverage stood strong at 16.56 times during FY17 while its Total Debt/GCA was comfortable at 2.34 times during FY17. The average utilization of its sanctioned working capital limits for Rs.177.40 crore remained at around 68% during the trailing 12 months ended July 2017. Working capital utilization was at moderate levels also due to CENVAT receivables.. Further, Citi Bank & HSBC have also sanctioned Rs. 325.00 crore bank facilities to SIL backed by corporate guarantee of INEOS Styrolution Group GmbH which lends financial flexibility to SIL. Furthermore, SIL has free cash and cash equivalent of Rs.27 crore as on September 30, 2017 as against Rs.16 crore as on March 31, 2017.

Key Rating Weaknesses:

Moderate profitability: Total Operating Income (TOI) of SIL declined marginally by 6% during FY17 mainly on the back of decline in sales volume of ABS and reduced focus on low margin polystyrene business. Sales volume declined marginally during FY17 due to shortage of supply of one of its major raw materials - Butadiene in Q1FY17, impact of demonetization and planned shutdown of plant in Q4FY17. Nevertheless, PBILDT margin of SIL improved from 6.15% during FY16 to 8.81% during FY17 on account of improvement in profitability of ABS due to increase in focus on specialty products and some improvement in the profitability of polystyrene segment. This has also been reflected from improvement in the PBIT margins of ABS segment from 6.78% during FY16 to 10.13% during FY17. PBIT margin from polystyrene segment improved from 1.86% during FY16 to 3.52% during FY17. However, inventory levels increased from Rs. 192 crore as on March 31, 2016 to Rs. 320 crore as on March 31, 2017 on account of impact of shutdown and lead time as imports constitute around 90% of raw material consumption. High inventory holding along with fall in prices during Q1FY18 on account of decline in crude prices and exchange rate movements and transitory impact of GST had resulted in decline in PBILDT margins to 2.91% during Q1FY18. PBILDT margins, however, again normalized to 6.95% during Q2FY18 with increase in sales volume and consumption of low cost inventory.

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 Polystyrene and all of these are derivatives of crude and subject to the risk of volatility in global crude prices. Raw material imports constituted 90% of its total raw material requirement during FY17. Since SIL has negligible export earnings, it is exposed to exchange rate fluctuations on its imports. SIL uses various foreign currency facilities available to it for import of raw materials. SIL 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 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 with a market share of around 31% in total domestic demand of around 2,23,000 MT of ABS during FY17. Balance demand is met mainly through imports (46% share) followed by another domestic player with 23% share. Although share of SIL declined from 36% during FY16 to 31% during FY17 due to disruption of production and impact of demonetization, it is expected to increase in the medium term with its focus on customized ABS catering niche application and resumption to normal operations post GST implementation. ABS and SAN are highly specialized engineering thermoplastic resins. The surge in imports of ABS in India may put only marginal pressure on realisation of SIL

in short to medium term mainly because imported products are largely commodity grade (Black & White colours) whereas SIL has large presence in speciality (coloured) products. Korea is one of the largest exporters of ABS accounting for around 76% of the total imports in to India during FY17. Korea, Thailand, Malaysia and Taiwan together account for more than 95% of the total imports of ABS in India. However, proportion of specialty grade ABS is around 55-60% in aggregate sales of ABS and SAN by SIL which provide it some competitive edge over imports. Furthermore, domestic demand of ABS has grown at a higher compounded annual growth rate (CAGR) of 10% during FY12-FY17 as against CAGR of GDP growth of 6% during corresponding period due to healthy demand from two wheeler, automobile and consumer durable goods manufacturers.

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. (SAI)), the Gujarat-based ABS and 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. (SSG) holds 75% equity stake in SIL with balance 25% being held by the public. SIL is engaged in manufacturing ABS, SAN and polystyrene which has diversified end applications.

Brief Financials (Rs. Crore)	FY16 (A)	FY17 (A)
Total operating income (TOI)	1584.83	1483.74
PBILDT	97.45	130.79
PAT	63.16	68.83
Overall Gearing (times)	0.32	0.36
Interest coverage (times)	8.61	16.56

Further, as per SIL's unaudited published results for H1FY18 it earned a PAT of Rs.19.72 crore on a TOI (Revenue from operations less excise duty) of Rs.931.78 crore as against a PAT of Rs.34.18 crore on a TOI of Rs.807.92 crore during H1FY17.

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	-	-	-	177.40	CARE AA+; Stable / CARE A1+
Commercial Paper	-	-	7-364 days	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 - LT-Cash Credit	LT	-	-	1)Withdrawn (11-Apr-17)	1)CARE AA+ (20-Oct-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (21-Jul-14) 2)CARE AA+ (08-Jul-14)
2.	Non-fund-based - LT/ST-BG/LC	LT/ST	-	-	1)Withdrawn (11-Apr-17)	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)
3.	Commercial Paper	ST	100.00	CARE A1+	1)CARE A1+ (11-Apr-17)	-	-	-
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	177.40	CARE AA+; Stable / CARE A1+	1)CARE AA+; Stable / CARE A1+ (11-Apr-17)	-	-	-

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