

Ineos Styrolution India Limited

December 04, 2018

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; Outlook: Stable/ A One Plus]	Revised from CARE AA+; Stable / CARE A1+ [Double A Plus; Outlook: Stable/ A One Plus]
Total	177.40 (Rupees One hundred seventy seven crore and forty lakh only)		

Details of instruments in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Ineos Styrolution India Limited (SIL) takes into account moderation of its profitability during H1FY19 (refers to the period April 1 to September 30) in its specialty segment (largely comprising of Acrylonitrile Butadiene Styrene (ABS)) which according to CARE is expected to continue in the near term. This is on the back of increasing competition from imports, increase in cost of production due to capacity constraint in its HRG rubber manufacturing facility which is a key intermediate product, and fall in the market prices of ABS due to slowdown in automotive segment (its key end-user industry). Further, continued subdued performance in its polystyrene business has also resulted in moderation in SIL's overall profitability (PBILDT margin). The ratings, however, take in to cognizance the on-going CAPEX in ABS segment which upon its completion is expected to reduce reliance on job work.

The ratings, however, continue to draw comfort from the established and long track record of SIL with its leadership position in the Indian ABS & Styrene Acrylonitrile (SAN) co-polymer markets with focus on customized specialty products, well diversified clientele and steady demand prospects from end user industries especially 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 continue to be constrained by susceptibility of SIL's moderate profitability to volatile raw material prices as they are derivatives of crude oil, foreign currency exchange rate fluctuations associated with imported raw materials, inherent low profit margin of its polystyrene business and intense competition from imports (especially from South East-Asian countries).

Inordinate delay in execution of planned expansion and generation of envisaged benefits thereof, ability to significantly improve its profitability while managing working capital requirements and maintaining its comfortable leverage and debt coverage indicators 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

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.

¹Complete 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 is on account of its presence in specialty grade of ABS wherein it faces relatively lower competition from imports. Apart from automobile, SIL also caters to demand in household consumer durable application and other commodity grades of ABS which in turn results in large and diversified customer base.

State-of-the-art manufacturing facilities operating at comfortable capacity utilization levels

SIL has modern manufacturing facilities and a state-of-the-art R&D center 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, 2018. Capacity utilization of ABS and SAN remained healthy during FY18 on account of high demand from both automotive and household segment. Captive consumption of SAN in the manufacturing of ABS has remained stable during FY18 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 by Q2FY20.

Comfortable leverage and strong debt coverage indicators

Capital structure of SIL has remained comfortable with low overall gearing of 0.16 times as on March 31, 2018. Its PBILDT interest coverage stood strong at 10.35 times during FY18 while its Total Debt/GCA was comfortable at 1.19 times during FY18. However, its debt coverage indicators have exhibited marginal moderation during H1FY19.

Liquidity

Although working capital intensity of SIL continued to remain moderate on account of large CENVAT receivables pertaining to its polystyrene business and inventory requirement, average utilization of its sanctioned working capital limits for Rs.177.40 crore remained comfortable at around 48% during the trailing 12 months ended September 2018. Furthermore, SIL had free cash and cash equivalent of Rs.69 crore as on September 30, 2018.

Key Rating Weaknesses***Moderation in operating profitability (PBILDT margin) due to decline in profitability of specialty division and modest performance of polystyrene division on sustained basis***

Total Operating Income (TOI) of SIL grew by 28% during FY18 (refers to the period from April 1 to March 31) and 18% during H1FY19 on year-over-year basis mainly on the back of steady increase in sales volume of ABS. Nevertheless, PBIT margins from specialty division declined from 9.56% during FY17 to 8.01% during FY18 on account of inventory loss during Q1FY18 as compared to gain during Q4FY17. PBIT margins of ABS division further declined to 5.30% in Q2FY19 as compared to 7.88% during Q2FY18 on account of relatively lower increase in sales prices of ABS as compared to increase in raw material prices. 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 constrain 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. Moreover, SIL's profitability is also constrained due to increase in job work of finished products and limited pricing flexibility on account of increase in competition from imports and its strive for maintaining market share and customer retention. Inventory level of SIL has also increased from Rs.300 crore as on March 31, 2018 to Rs.413 crore as on September 30, 2018. Nevertheless, envisaged completion of capex of ABS is expected to reduce reliance on job work and hence improve its profitability. SIL is also conducting engineering study for expanding its HRG rubber capacity to address capacity constrain.

SIL manufactures both General Purpose Polystyrene (PS) and High impact polystyrene (HIPS). However, its performance continued to remain subdued with PBIT of only Rs.4.23 crore in FY18 (FY17: Rs. 7.39 crore) and a loss of Rs. 7.30 crores at PBIT level in H1FY19 (H1FY18: loss of Rs.2.87 crore at PBIT level). Polystyrene product being commodity in nature and higher imports at competitive prices have led to this subdued performance. Also, ban on plastic in state of Maharashtra has also impacted the performance of this division.

Moderation in profitability of its specialty division and continued subdued performance of polystyrene division has resulted in moderate and declining PBILDT margins on sustained basis which is also expected to remain at moderate levels in the near term.

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 FY18. Since SIL has negligible export earnings, it is exposed to exchange rate fluctuations on its imports. 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. SIL has a dynamic hedging policy where 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 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 for total domestic demand of around 2,47,000 MT of ABS during FY18 out of which around 40% of demand was catered through imports. South Korea, Thailand, Malaysia and Taiwan together account for large share of imports of ABS in India. During 5MFY19 (April 1 to August 31), imports of ABS in India has increased substantially despite depreciation of rupee against USD. This has also resulted in squeezing of profitability of manufacturers especially in Q2FY19. However, proportion of specialty grade ABS is around 55-60% in aggregate sales of ABS and SAN by SIL which provide it with some competitive edge over imports. Furthermore, domestic demand of ABS has grown at a higher compounded annual growth rate (CAGR) of 10% during FY10-FY18 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, 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)	FY17 (A)	FY18 (A)
Total operating income	1483.74	1899.45
PBILDT	130.79	141.53
PAT	68.83	66.23
Overall gearing(including LC backed creditors) (times)	0.41	0.16
Interest coverage (times)	16.56	10.35

A: Audited

As per published results for H1FY19, SIL reported a total operating income (TOI) of Rs.1,169.52 crore (H1FY18: Rs.990.11 crore) and profit after tax (PAT) of Rs.23.86 crore (H1FY18: Rs.19.49 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	-	-	-	177.40	CARE AA; 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)Withdrawn (11-Apr-17)	1)CARE AA+ (20-Oct-16)	1)CARE AA+ (21-Oct-15)
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)
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 AA; Stable / CARE A1+	-	1)CARE AA+; Stable / CARE A1+ (14-Nov-17) 2)CARE AA+; Stable / CARE A1+ (11-Apr-17)	-	-

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