

“Styrolution ABS Third Quarter and Nine Months  
Ended on 31<sup>st</sup> December 2015 Results Conference Call”

**February 5, 2016**

**MANAGEMENT:** **MR. MYUNG SUK CHI – MANAGING DIRECTOR**  
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**MR. HARESH KHILNANI – COMPANY SECRETARY**

**Moderator:** Ladies and Gentlemen, Good Day and Welcome to the Styrolution ABS Third Quarter and Nine Months Ended on 31st December 2015 Results Conference Call. We have Mr. Myung Suk Chi – Managing Director, Mr. Bhupesh P. Porwal – Chief Financial Officer and Mr. Haresh Khilnani – Company Secretary and Head Legal from the management of Styrolution ABS. As a reminder, all participant lines will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call please signal an operator by pressing ‘\*’ then ‘0’ on your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhupesh Porwal. Thank you and over to you, sir.

**Bhupesh Porwal:** Good afternoon all of you. Dear shareholders, investors and analyst fraternity, we welcome you to this earnings call. Your company Styrolution ABS India Limited has declared results for the third quarter and nine months ended 31<sup>st</sup> December, 2015, yesterday. We will brief you about the major highlights of the performance.

Regarding year-to-date performance, profit after tax increased from 1979 lakhs in last period YTD December to 2952 lakhs i.e. 49% in current period YTD December 2015. Regarding revenue, there is an increase in sales volume by approximately 5kt from 60.7kt in last period to 65.8kt in current period. Net sales from operations decreased from Rs.89480 lakhs in last period to Rs.82857 lakhs, that is 7% in current period, the reduction is due to basic raw material prices and the international market prices of the ABS.

If we talk about the quarterly performance, profit after tax decreased from 928 lakhs in last quarter to 216 lakhs in the current quarter. Regarding revenue, net sales from operations decreased by 5875 lakhs from Rs.28708 lakhs in last quarter to Rs.22833 lakhs i.e. 20% decrease in the current quarter, the reduction is mainly due to sales volume decreased from 22.5kt in last quarter to 19.5kt in the current quarter. And the second was, continuous fall in the basic raw material prices and international ABS market prices which drove the selling prices further down.

If you see the cost of goods sold, because of the market prices, again there is a reduction in the cost of goods sold also and it was lower because of raw material prices were less and moreover sales volume was also less. However, margins remain intact.

Regarding expenditure, I will give you some extraordinary expenditure which was there in this quarter, the first one among employee benefit expenses. There is an increase in this expense due to additional provision of INR 52 lakhs made to comply with the Payment of Bonus Act which was a retrospectively amendment in this quarter. In other expenses, there is an increase mainly due to the provision of doubtful debt we made of approximately 280 lakhs and we are all trying our best to recover this amount. Moreover, an additional provision related to storage and charges at Kandla which was also increased retrospectively by the Kandla Port Trust, a provision has been made for 161 lakhs. So by just three big expenditures coming with the retrospectively effect, in current quarter due to unforeseen and unexpected these provisions as well as falling crude prices, quarterly results are adversely impacted.

Now I invite Mr. MS Chi, our Managing Director to update you on the market and business scenario for this quarter and going forward.

**Myung Suk Chi:**

Thanks Bhupesh. Good afternoon investors, shareholders and analysts. Our sales performance of last quarter was relatively affected by two major impacts. Firstly, due to lower Diwali demand than expected our major industries – two wheeler and household have cut operational rate by 3% from November last year to control the inventories. And also buying demand was weak especially from the digital market and stationary manufacturers on the back of continuous fall in Beijing raw material prices and international ABS and SAN market prices. Due to these business environment, our sales volume was reduced compared to previous quarter. Secondly, basic raw material prices have fallen down continuously during the quarter and thereby we had a substantial inventory losses.

Overall, industry operation rates are now slowly improving and there will be also seasonal demand pickup for air conditioner and refrigerator segment. We expect our sales volume this quarter will increase substantially compared to last quarter. Moreover, raw material price seems to be stabilizing from January 2016. If it is continued, it will give us further positive impact.

For my personal information, I am moving to Korea for another assignment. It gives me pleasure to inform you my successor Mr. Sanjiv Vasudeva who will be MD of our company with effective as of 1st March, 2016. Sanjiv is a chemical engineer and joins us from SABIC. He has twenty years' experience in the plastic industry and has held several key roles in manufacturing, quality, six sigma, and marketing and sales and also business management during his tenure previously Plastics in SABIC. He is well experienced in top management roles with P&L responsibilities and has worked in the Netherlands and Singapore prior to moving to India in 2010. I welcome him to Styrolution family and wish him success. I shall be transitioning my responsibility in the months of February. I will have to thank you so much for your support so far. I hope you will continue to support my successor Mr. Sanjiv Vasudeva.

Our target 2016, we continue to strengthen our position in focused industries mainly in automotive and household. We aim to achieve an increase in our full year profit compared to last year by improving capacity utilization with continued implementation of our people shaped strategy, However, these targets depend on global economy development and fresh availability of our main raw materials.

Thank you so much for listening.

**Moderator:**

Thank you. Ladies and Gentlemen, we will now begin the question-and-answer session. We will take the first question from the line of Sudhir Beda from Right Time Consultancy.

**Sudhir Beda:**

I want to know what is the inventory loss in the third quarter December quarter because in the last quarter also you said that falling crude price has resulted in inventory loss, so there would be an inventory loss in third quarter also. And one more thing, what is the projection, you are

saying that volume will increase substantially in the fourth quarter, so what is your projection for the volume in the fourth quarter? And what about the subsidiaries performance for the nine months December ending?

**Myung Suk Chi:** So let me explain for inventory loss, third quarter inventory loss was also similar to the second quarter.

**Sudhir Beda:** But can it be quantified?

**Myung Suk Chi:** It is roughly 40 million.

**Sudhir Beda:** 40 million?

**Myung Suk Chi:** Yes.

**Sudhir Beda:** And what about the volume growth in fourth quarter?

**Myung Suk Chi:** Fourth quarter we expect our volume will grow by more than 20% compared to last quarter.

**Sudhir Beda:** And is there any clarity for the results of your subsidiary?

**Myung Suk Chi:** Results of subsidiary, declared with the consolidated results in March.

**Sudhir Beda:** But any hint on how is the performance, it is profit or losses?

**Bhupesh Porwal:** So that we can see in the consolidated results, I can only say it is going good, better than the last year.

**Sudhir Beda:** It would not affect the profit of the main company?

**Bhupesh Porwal:** It is better than the last year.

**Moderator:** Thank you. Our next question is from the line of Jayesh Parekh from JMP Group.

**Jayesh Parekh:** My question is relating to other expenses, the other expenses has gone to 47.8 crores from 42.75 crores compared to last quarter, and overall for the nine months other expenses have gone up from 120 crores 143 crores, so can you throw some light on this please?

**Bhupesh Porwal:** Yes, Jayesh as I told in my introductory things, there are three major things for this quarter and basically the same reflect for the YTD also, one is the retrospective amendment of increase of the Payment of the Bonus Act, we had to make a provision in the last quarter of 52 million. And the other thing I said was, we made a provision of doubtful debt of 280 lakhs in this quarter. Another third thing which I mentioned was about the Kandla Port Trust, again it was an retrospective amendment since 1st April, 2014, and to that we made a provision of 161 lakhs. I think these are the three major reasons for this increase in expenses.

- Jayesh Parekh:** And do you think that this will continue in Q4 as well?
- Bhupesh Porwal:** No, see these are all one-time expenses.
- Jayesh Parekh:** Yes, that is why I am just asking.
- Bhupesh Porwal:** So these will not continue. By chance these retrospective amendment for two things came in this quarter itself, so that was the additional hit, so these are one-time things.
- Jayesh Parekh:** Then why you have not taken these as an exceptional expenses by separate column so that one can understand what exactly is the scenario for the quarter or at least some note would have been given, that would have shown an improved result for the quarter excluding the exceptional expenditure like this what you are talking about.
- Bhupesh Porwal:** No, expenditure does not fall under exceptional ones. These are normal business expenses.
- Jayesh Parekh:** No, I understand but since these particular expenditure is not pertaining to the quarter, pertaining to the business of the company but not pertaining to the period of these particular quarter, had some footnote would have been given it would have given a little bit clarity to the investor.
- Bhupesh Porwal:** That is the reason we mentioned the same in the investor presentation.
- Jayesh Parekh:** Yes, it is fine, I appreciate. Thank you sir.
- Moderator:** Thank you. Our next question is from the line of Sudhir Beda from Right Time Consultancy.
- Sudhir Beda:** Sir one more clarification about the exceptional expenditure, is it 52 lakhs or 52 million?
- Bhupesh Porwal:** 52 lakhs, maybe I mentioned million, sorry.
- Sudhir Beda:** Yes, that is why I asked again.
- Bhupesh Porwal:** No, 52 lakhs.
- Moderator:** Thank you. Our next question is from the line of Arjun Sengar from Reliance Mutual Fund.
- Arjun Sengar:** Sir, I just want to ask you think volume growth that you are expecting in the next quarter is YoY, right, 3% YoY growth?
- Bhupesh Porwal:** No, volume growth in next quarter will be, what is mentioned is with respect to December quarter what we achieved, so about that that volume will be achieved which was mentioned.
- Arjun Sengar:** So growth compared to Q3 you mean?

- Bhupesh Porwal:** Q3 yes.
- Arjun Sengar:** So YoY that would still mean contraction?
- Bhupesh Porwal:** No, YoY it will be somewhere better than last year.
- Arjun Sengar:** And the inventory loss that you said is 4 crores right, if I got it right?
- Bhupesh Porwal:** Yes, roughly, not exact figures but roughly.
- Moderator:** Thank you. Our next question is from the line of Kirshna Kumar from Sundram Mutual Fund.
- Kirshna Kumar:** Sir could you give some color in terms of how the spreads have moved and what kind of utilization levels that you have in different parts of the business?
- Myung Suk Chi:** You are talking about industry utilization rate or what?
- Kirshna Kumar:** On the ABS side and also on the backward integration projects that you have done.
- Myung Suk Chi:** So our capacity utilization rate was increased by around 8% to 9%, so our capacity utilization rate in the previous calendar year was roughly 85%.
- Kirshna Kumar:** And this year, you are up 8%?
- Myung Suk Chi:** This year also though we are aiming to increase our capacity utilization rate by another 8% to 9% and we are aiming to increase to more than 90% this year.
- Kirshna Kumar:** And in terms of the inputs we have also invested in backward integration projects in the last couple of years, so on the monomer etc, so on sand and monomer, so what is the utilization level there?
- Myung Suk Chi:** We do not have a backward integration plan, we have SAN plant, SAN plant still the capacity utilization rate is roughly 75%.
- Kirshna Kumar:** So the full benefits of backward integration are already kind of captured in the current year?
- Myung Suk Chi:** Yes.
- Kirshna Kumar:** So could you give us sense on how the product spreads have moved for us in the last couple of quarters like from September quarter to December quarter, could you give us some color on how the gross margins have moved?
- Myung Suk Chi:** Actually, overall our margins remain same, actually our margins means our sale price minus basic raw material price excluding inventory loss was little bit improved by around \$15

increase a ton base, but due to some inventory loss our overall profit was affected, but the margin is there, it was not eroded, it was slightly improved by around US\$15 a ton.

**Kirshna Kumar:** So what will be the spread now sir if you look at third quarter after the improvement?

**Myung Suk Chi:** I think our margins, I cannot say exact number but the raw material margin is roughly 25% of revenue.

**Kirshna Kumar:** And in terms of input materials, what kind of contracts we have for supplies, do we have annual volume contracts with monthly resets or, how do we structure the contracts from the input raw material side?

**Myung Suk Chi:** We make annual contract and based on monthly price, based on international market price, that is our general contract price formula. So I would have said half of our raw material price is from previous months market price and half of our raw material is current months.

**Kirshna Kumar:** And with respect to our parent and other group companies, do we have any sourcing arrangements with our parent or our other sister companies in the region?

**Myung Suk Chi:** Yes, the basic raw material sourcing is supported by our headquarter, Singapore and global. So they make us contract by competitive bidding from several raw material cost and they try to minimize the price from this contract, they are supporting us. And globally we have also backward integration so we are producing some of the raw material, so they are supplying also some of raw material from other region.

**Kirshna Kumar:** And on the customer side, could you talk a little bit about the market, how do you see the recovery in demand I think both from two wheelers and other consumer household products, third quarter was very weak you talked about from a volume perspective, so any new customers that you added, any new contracts that you got into for long-term supplies with corporate customers, can we talk a little bit about that?

**Myung Suk Chi:** So let me explain our overall industry situation last calendar year for four-wheeler after several years of shrinking the last year the four wheeler industry has grown by 5% and there is spike for four wheeler industry and overall ABS demand also grew by 5% but our sales was grown by 11%, so we are forecasting to expand our business faster than other market in four wheeler industry. And for two wheeler industry is also one of the major market segment for our previous industries. Unfortunately, this industry is not very good last year so this industry has flat growth, so no growth last year while our sales was grown by around 4%. Household appliance, it has grown by around 15% last year mainly driven by Tamil Nadu juicer mixer project, but major household appliance has grown only 5% but because of strong growth of these small household mainly driven by Tamil Nadu project the overall growth rate was increased to 15%. Electronics industry mainly driven by a strong growth of LED TV, it was grown by around 9% to 10% last year. And other industry like toys/sports/leisure, this industry has grown roughly 10%, normally traditionally this industry is growing GDP plus 1% to 2%,

so last year the GDP growth was 7.4% so this industry has grown by roughly 10%. That is our ownership for the industry growth. But unfortunately, people divided the industry was grown well so manufacturing sector, the growth from April to November last year was 3.9% overall industry, overall manufacturing sector while the growth in the same period of 2014 was only 1.5%. So if you see manufacturing, they improved their operations a lot last year on eve of Diwali but the Diwali demand was not as expected and thereby they could not sell enough volume which has been produced before Diwali. So in order to control the inventory especially for two wheeler industry and household appliance industry they cut the production by 3%, due to this effect overall manufacturing sector growth has shrunk by (-4.4%) since November last year. So November - December there was a bit shrinkage of ABS market, except for this I can say overall demand was very strong last year. So overall AMS market was grown, ABS demand as grown by 10% last year. And then second question?

**Kirshna Kumar:** Yes, I was just asking about any new OEM customers that you added to the customer list, like any major automotive manufacturer or...

**Myung Suk Chi:** Yes, I think we developed many application and also many new customers in auto industry and therefore we could grow faster in market growth. So we made many new customers in automotive, four-wheeler and also two wheeler. Our two wheeler market share is more than 55%, but unfortunately our sales to TVS was very low, but we increased our sales to TVS last year substantially, that is one announcement. And also we have developed new project, new model approval also in Maruti Suzuki, Hyundai and also the Honda and also Ford, many automotive manufacturers and thereby we could enjoy the 11% growth in this segment. And except for this, the Bosch demand has invested household appliance enterprise in Chennai, they started the business from last year so we developed this business in Bosch that is household appliance. And also the Godrej, we had our new approvers f our product and thereby we expand our position further. And also Hyderabad Battery Limited, we had also approval for our new product for telecom battery housing which helps give us also big potential. I think that is just outline of our new business development and application development last year.

**Kirshna Kumar:** Great sir. I think it has been a very comprehensive overview of all that good things that happened last year, new customers, new wins and I am sure we would be able to improve utilization in the current year. So when do we need to add anything about capacity, we are at as you said 85% to 90% utilization level so what is the plan to increase capacity, to take care of the growth in the next two to three years?

**Myung Suk Chi:** Yes, we are actively studying, so we have not yet announced this one, once we decide to final investment and the timing then we will inform you, but it is too early to inform to you, I am sorry to say.

**Kirshna Kumar:** Sure. But generally to understand sir, if you have to say double your capacity on ABS, the current capacity that we have if you want to double it, what would be the kind of investments that one would have to look at?



- Myung Suk Chi:** So I still we are evaluating the investment cost, because we have not accommodated all the investment cost study, so I think it is too early to tell you, I am sorry.
- Kirshna Kumar:** And is there any other new product from product diversification perspective that we would be considering to invest in the country for any variance of the current product range?
- Myung Suk Chi:** So several products we are importing from other countries, so to produce locally here in India we have to increase our sales volume, so I think once we further develop this business our several products, yes we will expand the production of these products locally in India. But I cannot explain, I cannot explain you about our detailed plans.
- Moderator:** Thank you. Our next question is from the line of Atin Jain who is an Individual Investor.
- Atin Jain:** Sir, I just want to understand how does the lower crude price can benefit the company and are there some benefits expected in the next quarter from the crude price?
- Myung Suk Chi:** I think the crude oil price does not have a direct relationship with our profitability, but volatility of crude oil price leaving a big impact on our profitability due to inventory loss and gain. So I do not know, whether the crude oil price already hit the bottom or not but still the price is volatile, it is fluctuating US\$ (+/-30), so depending on the fluctuation also stock market is also fluctuating. But I think once the crude oil price stabilizes then I think our profit will also be stabilized but that is linked between crude oil price and our profitability.
- Moderator:** Thank you. Our next question is from the line of Sudhir Beda from Right Time Consultancy.
- Sudhir Beda:** I just want to understand what is your expectation for 2016-17 as far as volume is concerned, what kind of volume growth the company can see next year?
- Myung Suk Chi:** In India ABS demand is growing by around 10% every year, we are aiming 1% to 2% more growth in market demand growth.
- Sudhir Beda:** So maybe 12% to 15% volume growth you are expecting?
- Myung Suk Chi:** Say around 12%, yes.
- Sudhir Beda:** And the same margin will continue or it can go up also with the utilization...
- Myung Suk Chi:** We explained several times, we are...
- Sudhir Beda:** With the more utilization of the capacity can the margins be expected to go up or it will remain stable?
- Myung Suk Chi:** We explained several times to investors and also shareholders, we are focused on premium industry, specialty products and the premium industries like automotive, household and electronics rather than commodity market, that is our one of three-ship strategy. So we want to

focus more on premium products or specialty products segment rather than commodity products. If our sales to specialty market or premium segments is increasing more than commodity than our margin will be further improved, that is our prime focus and also we are forecasting this.

- Moderator:** Thank you. Our next question is from the line of Nirav Jamindar from Envil Research.
- Nirav Jamindar:** Sir, just two set of question, what is the volume breakup between the SAN and the ABS for Q3 as well as for nine months FY16?
- Myung Suk Chi:** Roughly 85% is ABS and 50% SAN.
- Nirav Jamindar:** And sir my second question is like, sir if we see the other expenditure, some of the cost line items you just mentioned which were the one-time expenditure which you rightly explained, but sir apart from this was there any increase in other variable cost like the freight expenses or discounts and commissions what we have given in Q3 probably because of the weaker demand or falling crude prices or something like that, was there any increase in other variable cost apart from this...?
- Myung Suk Chi:** There was no increase in other variable cost, freight cost was little bit reduced due to lower diesel price and the commission is linked with our sales revenue so there was no increase in commissions also.
- Nirav Jamindar:** And sir on the discounts, any additional discount what we have given?
- Myung Suk Chi:** We have no discount actually.
- Nirav Jamindar:** Because since the crude prices are falling down, so...
- Bhupesh Porwal:** So there is nothing extraordinary in that, normal business decision.
- Moderator:** Thank you. Our next question is from the line of Kirshna Kumar from Sundram Mutual Fund.
- Kirshna Kumar:** Just on the related party transaction, in the last Annual Report you had disclosed that you had I think imported styrene monomer from the parent, about 44,000 tons right, so could you give us some sense in terms of the current quarter and the current nine months what would be the import through the parent or sister organizations?
- Myung Suk Chi:** So styrene monomer we are importing from our parent companies, our regional headquarter and also some of **0:37:29.8** material we are importing from our alliance group, so our parent companies. But out of total demand roughly 40% are supplied from our alliance group, for styrene monomer roughly 50%, 50% were imported from our Singapore headquarter.
- Moderator:** Thank you. Our next question is from the line of Mayur Matani from ICICI Securities.

- Mayur Matani:** Sir last time I missed, you told that in FY17 how much will we grow and what would be the major sectors which will contribute to it?
- Myung Suk Chi:** Can you repeat please.
- Mayur Matani:** How much demand growth that we expect in FY17 and which sectors will mainly contribute to it?
- Myung Suk Chi:** FY17?
- Mayur Matani:** The next year.
- Myung Suk Chi:** Let me explain, so we analyze the full industry and we studied how will be the industry growth in the coming years up to 2017. Overall ABS in India will grow by around 10% even 2017 will be similar, the overall user consumer industry electronics and household will lead the growth and four wheeler case we expect roughly 8% growth and also two wheeler we expect around 8% growth, so electronics and household roughly 10% growth and also the general industry body 9% growth.
- Mayur Matani:** Sir I just wanted to know, two wheeler being our biggest consumer and if two wheeler is not growing at this pace then do you see that our volume growth can be 10% in years to come?
- Myung Suk Chi:** Yes.
- Mayur Matani:** And sir with regards to competitive scenario how we are seeing the competition from the import players, other players and from the imports?
- Myung Suk Chi:** The imports mainly focused on commodity market, so the commodity market there is increase in competition. But specialty market is not as much competitive than commodity even though there is competition, so that is the situation.
- Mayur Matani:** And sir, so we expect the margins to stabilize what they have been in the last two quarters or do you see some contraction in margins because the commodity margins are coming down?
- Myung Suk Chi:** In our margins there was no change in the past three quarters.
- Moderator:** Thank you. Sir there are no further questions in the queue, would you like to give some closing comments?
- Myung Suk Chi:** Thank you very much for your support, all investors, shareholders and analysts. The main motive of Styrolution ABS will continue to make an effort to further improve our performance focusing on premium industry and premium product sales and to satisfy your expectation. So please trust our management team and extend your support to also new MD Mr. Sanjiv Vasudeva. Thank you very much.

**Moderator:** Thank you. Ladies and Gentlemen, on behalf of Styrolution ABS Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.