

**EARNINGS CALL – 1**  
**QUARTER 1 FY 2015-16 RESULTS**

**August 06, 2015**

**CORPORATE PARTICIPANTS**

**MR. M.S. CHI – MANAGING DIRECTOR**

**MR. BHUPESH P. PORWAL – CHIEF FINANCIAL OFFICER**

**MR. HARESH KHILNANI – COMPANY SECRETARY AND HEAD - LEGAL**

**Moderator:** Good Day Ladies and Gentlemen and Welcome to Styrolution ABS Q1 Ended 30th June 2015 Financial Results Conference Call. We have Mr. M.S. Chi – Managing Director, Mr. Bhupesh P. Porwal – CFO and Mr. Haresh Khilnani – Company Secretary from the management of Styrolution ABS. As a reminder, all participant lines will be in the listen-only mode. 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 the management. Thank you and over to you.

**M.S. Chi:** Good afternoon ladies and gentlemen. Let me give you a briefing of the financial result for the first quarter ended on June 30, 2015. Total income for the quarter on a standalone basis increased through INR 31,355 lakhs compared to INR 26,799 lakhs in the previous quarter at a growth rate of 17%. Profit before tax to INR 2,851 lakhs compared to INR 1,215 lakhs in the previous quarter at a growth rate of 134%. While this profit after tax increased to INR 1,808 lakhs compared to INR 981 lakhs in the previous quarter at a growth rate of 96%. The increase in revenue and profit were mainly due to increase in sales and margins.

**Management:** So this was a brief about the quarter one about the number how it has gone, so we can open for the questions on this part on the quarter one.

**Moderator:** Thank you very much sir. Ladies and Gentlemen, we will now begin the question-and-answer session. We have the first question from the line of Dheeresh Pathak from Goldman Sachs. Please go ahead.

**Dheeresh Pathak:** What was the reason for the strong gross margin improvement that we saw this quarter?

**M.S. Chi:** There are two reasons, one is that we increased our sales by around 15% and that was mainly driven by the market demand growth of 13% and also our effort to improve our position in the specialty market like automotive and household. That was the first reason for the increase in our gross margin. We had a strong inventory gain in the first quarter.

**Dheeresh Pathak:** How much was the inventory gain?

**M.S. Chi:** Inventory gain there was some, but it was much lower than our margins improvement driven by our sales volume growth.

**Dheeresh Pathak:** Okay. So you are saying volume growth this quarter year-over-year was 13% if I heard you correctly?

**M.S. Chi:** 13% is market demand growth.

**Dheeresh Pathak:** Okay. But year-over-year the revenue growth is flat but.

- Bhupesh P. Porwal:** The revenue growth is flat because selling price was lower than same quarter last year due to low raw material price influenced by low crude oil price-
- Dheeresh Pathak:** That is understood sir, what is the volume growth year-over-year?
- Bhupesh P. Porwal:** That is what we said, we had 21.8 KT of the sales, last quarter and this year it was 23.8 KT.
- M.S. Chi:** Compared to last quarter January to March 2015 we grew 15%.
- Dheeresh Pathak:** Okay. You are saying quarter-on-quarter you grew 15%?
- M.S. Chi:** Yes, our volume growth was 15% while market demand grew by around 13%.
- Dheeresh Pathak:** Last question sir, based on the demand outlook that you are seeing in the economy right now, what is the outlook for this full year in terms of volume growth and also for margins after adjusting for whatever one-off inventory gains that you may have had what was the outlook for full year revenue growth and full year margin.
- M.S. Chi:** I think it is very difficult to say a clear number, for the revenue growth I think it depends on raw material price development, now with the downtrend of crude oil price raw material price is declining at this moment so we do not know how will this raw material price and crude oil price be developed, do definitely our revenue is related through this raw material price and crude oil price development.
- Dheeresh Pathak:** Sir that is why I am asking for volume outlook, not for realization outlook.
- M.S. Chi:** I think for the whole year we are targeting to grow more than market demand growth by around 2%.
- Dheeresh Pathak:** How much percent?
- M.S. Chi:** We are targeting to grow our sales volume by additional 2% from market demand growth.
- Dheeresh Pathak:** What is the market growth outlook?
- M.S. Chi:** Market demand growth we do not know yet, because of the uncertainty for economy development but it will be grown by more than GDP growth.
- Dheeresh Pathak:** More than GDP growth and you will grow 2% more than market, okay. And the margins because they have come down structurally over the last many years, now obviously this quarter we saw a large improvement, so full year margins what to expect?
- M.S. Chi:** Overall we are trying to improve and to maximize our margins by focusing on the development of specialty business. We are focusing on the increase of our sales of our specialty product. I think we can improve our margin by doing so. We are selling roughly 55% of specialty and

45% of commodity. Commodity product margin is highly dependent on the raw material price volatility because there will be loss on our margin for commodity product in the downturn of raw material price. But in case of specialty product the profit margin is quite stable and much higher than commodities. By increasing the sales volume of specialty product, we are targeting to improve our profit margin this year.

- Moderator:** Okay. So will it sustain at this double-digit level that you have got this quarter?
- M.S. Chi:** This quarter was more than double-digit rate, but overall I think, yes that is our aim but it depends on global market development and also raw material volatility.
- Dheeresh Pathak:** Okay. And what is your capacity utilization as of now in specialty and commodity product?
- M.S. Chi:** I think in case of specialty we just increased our capacity last October so at this moment our capacity utilization rate is roughly 80%.
- Dheeresh Pathak:** 80% in specialty?
- M.S. Chi:** Yes. So since we have just expanded the capacity, it will take one or two more years to utilize those capacities 100%.
- Moderator:** Thank you. Our next question is from the line of Hussain Baruchwala from Jain Investment. Please go ahead.
- Hussain Baruchwala:** I just wanted to know what is the benefit of the gain from oil and how much is passed on to consumers and how much is retained by the company?
- M.S. Chi:** You are talking about the benefit of crude oil.
- Hussain Baruchwala:** Yes.
- M.S. Chi:** Our margin has nothing to do with the crude oil price, just because of volatility of crude oil price our raw material price will be also fluctuating. If there is a steep downtrend of raw material price we can have a raw material inventory loss because we are keeping some raw material inventory. On the other end if raw material price is going up then we can also have inventory gain. For the one year perspective or mid-term perspective, there will be little impact on inventory gain or loss. But for the short-term we can have some impact on raw material inventory gain and loss, so overall there is not much impact of the current crude oil price but in case the crude price is increasing and thereby our raw material price is increased, then yes of course we can pass on this additional cost to our customers by increasing our price. We are aiming to maintain a certain margin. There are raw material price fluctuation, but finally we work to improve our margin by increasing our sales for specialty product rather than commodity. I think it will improve overall our margin.

- Moderator:** Thank you. Our next question is from the line of Chintan Modi from Motilal Oswal. Please go ahead.
- Chintan Modi:** Yes sir, I am very new to the company and would like to understand few things. First is, what are the products that we have in the specialty chemical side and another on the commodity side? If you can throw some light on that.
- M.S. Chi:** So in our Styrolution India company perspective we are producing the High Heat ABS and LuranS, ASA product and also we are producing the various premium grade like plating grade, metal plating grade, flame retardant grade and high UV stabilized grade and so on. Those grades we call as specialty product because we will get premium margin from the market. Commodity product is mainly natural color of ABS and standard color of ABS like white, grey and black color. We call it as a commodity grade, which can be easily replaced by other competition grade and thereby the margin of this product is rather lower than specialty product. But in case of the specialty product like plating grade, metal plating grade, UV stabilized grade, flame retardant grade and high head ABS and ASA, once this material is qualified then it will be very difficult to replace these material because unique value of each product is different. So it will take a time to replace and therefore we create some premium and higher margin from the sales of these specialty products.
- Chintan Modi:** And what would be the margin difference between both these category of products?
- M.S. Chi:** I cannot give you those details; I can say specialty margin is double of commodity margin.
- Chintan Modi:** It is double from commodity?
- M.S. Chi:** Yes.
- Chintan Modi:** Okay. And do we enjoy any kind of pricing power in specialty products or do we in that case also depending on the raw material price movement we have to pass it on?
- M.S. Chi:** Yes of course it will be influenced by also raw material but much less than commodity products. So the margins development of special product is quite stable, even high fluctuation of raw material price. So because we can absorb some raw material price fluctuation in our selling price because of high margin. So the price is therefore stable than other commodity product.
- Chintan Modi:** Okay. And what would be the revenue contribution between both these category?
- M.S. Chi:** In terms of revenue contribution it is 55 to 45.
- Chintan Modi:** 55 is specialty and 45 is commodity?
- M.S. Chi:** That is volume, and in terms of revenue contribution, I can say it is 70:30.

- Chintan Modi:** Sorry, I did not get you.
- M.S. Chi:** 70% specialty and 30% commodity in terms of revenue contribution because specialty product is much higher price than commodity.
- Chintan Modi:** Right. And what are the capacities that we have?
- M.S. Chi:** Now we have capacity of 110 kt/a for final ABS product.
- Moderator:** Thank you. Our next question is from the line of Chintan Seth from SKS Capital and Research. Please go ahead.
- Chintan Seth:** I wanted to understand, your products are Absolac and Absolan that is everybody says ABS and SAN where we have a market share of 60% and 68% respectively in the Indian market, is this the correct information?
- M.S. Chi:** No, let me correct it. ABSOLAC is our ABS brand, ABSOLAN is our SAN, the brand name, our market share of ABS is 44% to 45% and our market share for SAN is 60%.
- Chintan Seth:** And our capacity last year for ABS is 80,000 MT and SAN 100,000 MT?
- M.S. Chi:** That was our capacity but we increased our ABS capacity by additional 30,000 mt/a in October last year, so now our ABS capacity is 110,000 mt/a, and our SAN capacity is 100,000 mt/a. But SAN is mainly used as intermediate product for ABS.
- Chintan Seth:** So it is internally consumed basically?
- M.S. Chi:** Yes. But also we are selling this SAN to customers also.
- Chintan Seth:** How much captive use we do for SAN? Out of 100,000 mt/a, how much capacity is being used for captive use?
- M.S. Chi:** It depends on how much we have to produce ABS. You can understand that if we produce 100 metric ton of ABS then we consume roughly 75% material of SAN internally.
- Chintan Seth:** Okay. 75% of the 100% is required to produce ABS?
- M.S. Chi:** Yes.
- Chintan Seth:** Okay sir. And one more thing on margin again, coming back to the previous participant question, you did mention that the net margin will continue this year given the low raw material prices, so we can expect this margin level to continue for the entire year irrespective of our crude prices moving up and down? Because you have said that if one quarter we incur an inventory loss of all crude inventory then in the subsequent quarter if the prices go up then we

can have that reverse back by having a low inventory at that point of time, so it nullifies over a period of time.

**M.S. Chi:** Yes, we cannot avoid inventory gain or loss depending on raw material price fluctuation but we are aiming to minimize the inventory gain or loss by minimizing our inventory. And on the other hand by focusing on those specialty products business development and also increasing our position in automotive and household appliance we are now trying to stabilize our margin or even further improve the margins in the coming quarters. But it depends on the crude oil development and also global economic development.

**Chintan Seth:** Right sir. Sir what is the target in terms of your mix you have said that 70:30 is the current revenue mix between specialty and commodity grade products. What are your target to improve further or this is the mix we will continue for the entire year, are there any improvement in terms of mix going further improving towards the high margin specialty chemical business?

**M.S. Chi:** We are trying to improve further for the sales revenue from the specialty product but at this moment still we have to utilize the redundant capacity so also we have to increase the commodity sales as well to maximize our capacity utilization. For time being, even though we focus on specialty product development I think our current ratio will not much changed. But for the long-term yes we are trying to increase the specialty product sales rate.

**Chintan Seth:** Okay. Sir how does it work basically, the contract you get orders from the consumable industry from then there is a long-term contract for supply of ABS and SAN to the usual, it is a contractual annual contract or quarterly contract or it is like long-term contract in nature?

**M.S. Chi:** We have no written contract but we are doing business with most of customer for more than 25 years, so even though there is no written contract we are getting from long relationship.

**Chintan Seth:** So you are talking about long-term relationship based business model?

**M.S. Chi:** Yes.

**Chintan Seth:** You have your customers in place and have a strong and bonding relation for long time?

**M.S. Chi:** Yes, I think good relationship with customers and also our products quality reliability and also providing the product solution are major drivers for our business.

**Chintan Seth:** Okay sir. Sir if I may chip in one more last question, you acquired Styrolution India Pvt. Ltd. last year which produced polystyrene at Dahej plant, are those numbers basically included in this quarter and if you can break it up for us?

**Bhupesh P. Porwal:** No, it is not included in this, we have published only the standalone results.

- Chintan Seth:** Right. So as per the annual report we invested around, India alone current investment has grown up from negligible amount in CY13 to 100 crores, so more so we assume that these investment is basically what we invested in Styrolution India Pvt. Ltd, is the influence correct?
- Bhupesh P. Porwal:** Yes, it is correct, it is 100% for SIN only.
- Chintan Seth:** Okay. So 100 crores incremental investment is towards Styrolution India?
- M.S. Chi:** Yes.
- Chintan Seth:** If you can throw some light on the product as well as any financial detail you can provide for FY14 will be helpful
- Bhupesh P. Porwal:** Yes, definitely we will look into this if we can provide in future for the financial result for this one.
- Chintan Seth:** Right sir. Any number for CY14 if you can provide what kind of revenue that subsidiary?
- Bhupesh P. Porwal:** That is given in the annual report.
- Chintan Seth:** It is there! Okay, I will check and come back. Thanks.
- Bhupesh P. Porwal:** Consolidated results are present and standalone for SAI is there.
- Chintan Seth:** Okay. So the difference will be Styrolution India Pvt. Ltd.
- Bhupesh P. Porwal:** Yes.
- Chintan Seth:** And sir any CAPEX plan for the year, any further investments you want to make to increase your capacity?
- M.S. Chi:** We are evaluating various options for further plant capacity expansion, so once we will conclude then we will announce this one.
- Chintan Seth:** Okay. No diversification to any other specialty chemical products or you will stick to your ABS and SAN?
- M.S. Chi:** Yes, we will focus on Styrenics.
- Moderator:** Thank you. Our next question is from the line of Prakash Kumar who is an individual investor. Please go ahead.
- Prakash Kumar:** I just wanted to learn, who are our nearest competitors both globally and in India for ABS and SAN? And secondly, last year we have launched this Novodur, HH and Luran S for the



automotive industry, so who were the domestic other competitors who are same as our quality of our company?

**M.S. Chi:** Okay. Clearly we are the global market leader for Styrenics business and we are the only global supplier who has the operating assets in 3 regions like Europe, United States, and Asia. But there are regional competitors like Chimei and LG but their operating assets are only in Asia Pacific. In India there is one local competitor named Bhansali Engineering Plastics who has the sales of roughly half of our sales and then nobody, those are our local competitor and also they produce the similar product of our Novodur HH and ASA and they also supply these products.

**Prakash Kumar:** The Bhansali Engineering Polymers what you are saying is the same company which is there in Calcutta?

**M.S. Chi:** No, Bhansali Engineering Plastics has two production sites, one is at MP, and also another one is at Abu Road.

**Prakash Kumar:** Okay. And sir are we planning any new launches in the next six months for any specific industries?

**M.S. Chi:** At the moment we are focused on further expanding our business for Novodur HH and ASA. Of course we are continuously developing new products with the innovative solution to maximize the value to our customers.

**Moderator:** Thank you. Our next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

**Sanjay Shah:** Sir my question is, my major questions have been answered but my one question is sir do you see any export opportunity for our specialty product now or in future?

**M.S. Chi:** At this moment we really do not see any opportunity for the export because the infrastructure for export in India is still not very developed. So the domestic logistic cost for the export is still very expensive, and is not competitive. But in the future as India Government is now trying to improve infrastructure in the long-term future yes we have some potential. But in the near future I do not see any potential for export.

**Sanjay Shah:** Right sir. Sir we have talked about our market share and our competitor but I would like to know specifically in our specialty product what is our market share and who are our competitor, specialty product?

**M.S. Chi:** For the specialty product our market share is roughly 55%, but overall our ABS market share is 44% to 45%.

**Sanjay Shah:** Then other are domestic player or international?

- M.S. Chi:** No, roughly 20% from domestic competitor and another 35% is from import.
- Moderator:** Thank you. Our next question is from the line of Chirag Shah from Dalal & Brocha. Please go ahead.
- Chirag Shah:** One is, sir what is the outlook for the subsidiary company because I went through the annual report and I believe it has a top-line of close to around 500 crores plus but very negligible EBITDA. So if you could guide us on what is the outlook for the subsidiary? And second question is, given the fall in the crude oil prices in the last one month are we likely to see any inventory loss in Q2? Thanks.
- M.S. Chi:** The first question regarding subsidiary of the company, they are producing polystyrene, polystyrene is also one of Styrenic polymer. So far this polystyrene industry has suffered a lot because of those phase out of the major applications like CRT TV and CD case. But now this phase out is over so in the coming years we would see some moderate growth of this industry
- Chirag Shah:** Sir what you are trying to say is that on the top-line we are seeing a low growth outlook but on the margin side sir?
- M.S. Chi:** No, in terms of demand it has been declined due to this phase out of major application. But this is over already and then from now on we expect there would be moderate growth.
- Chirag Shah:** Okay. On the margin side sir, margins you highlighted on the revenue side but on the margins?
- M.S. Chi:** Indian market price is influenced by international market price in China and also Southeast Asia. But because of import duty Indian PS producers can maintain higher margin. Our sales volume will be growing in line with the market demand growth then overall our margin will grow by that much.
- Chirag Shah:** Okay. And on the second question sir?
- M.S. Chi:** Second question yes, I do not know, at this moment if crude oil price continues to decline, yes we may have some inventory loss. But if crude price is turning around again, we may have inventory gain. We do not know what will happen, it is based upon how crude oil price really moving.
- Chirag Shah:** Sure sir. Sir can you tell me what is the inventory days or raw material roughly average?
- M.S. Chi:** I think you can expect half a months' inventory.
- Moderator:** Thank you. Our next question is from the line of Abhinav Khandelwal from Aegon Religare. Please go ahead.
- Abhinav Khandelwal:** Can you share the consolidated volume details for this quarter?

- Bhupesh P. Porwal:** We are not presenting consolidated results.
- Abhinav Khandelwal:** Not even the volumes?
- Bhupesh P. Porwal:** Not even the volumes.
- Abhinav Khandelwal:** Okay. And in the last quarter you mentioned about the dumping from the Korean and the Thai players, what is the situation right now?
- M.S. Chi:** The situation still remains unchanged, still they are dumping some volume but nevertheless they are limiting the volume.
- Abhinav Khandelwal:** Okay. So dumping is into the commodity chemicals or specialty also?
- M.S. Chi:** No, they are dumping mainly for commodity product.
- Moderator:** Thank you. As there are no further questions from the participants I now hand the conference over to the management for their closing comments.
- Bhupesh P. Porwal:** So thank you all the participants for joining this conference. We hope to see you soon next quarter again and if anything is still left you can always contact us and we will be happy to share the details. Thank you very much.
- Moderator:** Thank you very much Members of the Management. Ladies and Gentlemen, on behalf of Styrolution ABS Limited this concludes this conference call. Thank you for joining us and you may now disconnect you lines.