



“Styrolution ABS (India) Limited Second Quarter /  
Half Year Ended 30<sup>th</sup> September 2015 Results  
Earnings Call”

**November 6, 2015**



**MANAGEMENT: MR. MYUNG SUK CHI – MANAGING DIRECTOR  
MR. BHUPESH P. PORWAL – CHIEF FINANCIAL  
OFFICER  
MR. HARESH KHILNANI – COMPANY SECRETARY**



**Moderator:** Ladies and Gentlemen, Good Day and Welcome to Styrolution ABS Second Quarter Half Year Ended 30th September 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. Chi – Managing Director. Thank you and over to you, sir.

**M.S. Chi:** Okay. Thank you very much for our investors to participate in this investors call. So I will let our CFO Mr. Bhupesh Porwal to brief you about our third quarter results.

**Bhupesh P. Porwal:** Good afternoon, Ladies and Gentlemen. I welcome you to the Earnings Call for the Standalone Financials of the Quarter and Six Months Ended 30th September, 2015. We thank you all for having trust and confidence in us.

This quarter was very challenging, after the rise in our business and increase in the crude oil in the first quarter, we had a sharp fall in the crude oil prices and the raw material prices which resulted into some inventory loss and created pressure also in the market demand, although the company has been able to have net profit of 928 lacs in comparison to 821 lacs in the previous year and in comparison to the previous quarter of 1808lacs. At the half year ended, the company had a net profit of 2736 lakhs in comparison to the previous year six months of 1343 lakhs. So these are the figures about our financial journey.

About the business update, ABS demand as an industry continues to grow at a healthy rate and the company had driven in line with the market growth, with its focus on premium grades to maintain its leadership position. As a market update we have been growing good and demand drew in household sector basically and reduced in two wheeler market due to the poor rural demand and overall market margin reduced substantially because of the sharp fall in crude oil prices and the inventory losses.

I would welcome your questions now. So this is all from my side and your questions are welcome.

**Moderator:** Thank you very much members of the management. We will now begin the question-and-answer session. We have a question from the line of Jatin Mahendra Vora. Please go ahead.

**Jatin Mahendra Vora:** So, I have read the presentation. I understand that we have done a volume growth of 25% as compared to last year for this quarter. So if this inventory loss would not have happened would our profit be almost equal to the last quarter of this year?

**Bhupesh P. Porwal:** Which is the 25% you are calculating, can you please repeat?

**Jatin Mahendra Vora:** Volume growth as per last year, last year sales growth.



**Bhupesh P. Porwal:** So you are talking about volume growth.

**M.S. Chi:** Yes, let me explain. Yes, we grew by 35% in volume in comparison to same quarter of last year. Last year we had some other production constraint due to shut down of our Nandesari plant to increase our capacity. So last year our sales was low but if we compare the demand of last year same quarter and this year same quarter then the demand itself has grown by 30% but our sales has grown by 35%, this additional 10% growth is due to the volume constraint of our last year. But compared to our previous quarter our sales was reduced already roughly by 4% to 5% around there, but during this quarter the crude oil price has gone down because around 30%, our in raw material price has gone down from 1,300 to 900, roughly 400 drop. So there was erosion in margin due to this sharp fall in raw material price and also there was some reduction in the buying demand due to this sharp fall in raw material price because most of customers have delayed the purchase order in expectation of further price drop in the coming months. There is some negative impact in purchasing demand, but nevertheless compared to that we could minimize the volume loss during this quarter by forecasting on the development of our business in specialty market and also due to continuous developing our business in specialty market and maintaining a high market share in this specialty market we could minimize margin erosion. So our price was quite stable in specialty market while our margin in commodity product was sharply fall.

**Moderator:** Thank you. We have a question from the line of Jayesh Parekh from JMP Capital. Please go ahead.

**Jayesh Parekh:** I can understand in spite of fall in crude price you could be able to maintain volume growth and at least have some bottom-line compared to other competitor in the field, so I would like to congratulate the management team for the best efforts done in second quarter. There are two points I want to know, how is the behavior of the crude price from closing inventory till today whether there is any further inventory loss from close of quarter till today? That is number one. Number two, had there would not have been any major fluctuation in the crude price do you think that our profitability would have been more or less similar to Q1? And my third question is, what is the status of merger of subsidiary company because we are not able to get consolidated results every quarter, so at least if you can tell us by what time the merger would get completed? Please go ahead.

**M.S. Chi:** Okay, I will answer number one and number two and our Company Secretary will explain number three. Yes, there is a small inventory loss even in October but we do not expect any further inventory loss in the coming months. So till the crude oil price is remaining at around 45 and our major raw material price is in between 920 to 950 in between, so I do not see any strong rebound on our crude oil price in the coming months, but at the same time I do not see any big reduction in crude oil price and our raw material price in the coming months. So the impact of inventory loss will be minimum in Q4 in next quarter and in the previous quarter if we have no inventory loss and also if there was no crude oil price fall and also if we had no shuffle in raw material price then I think our profit was similar to previous quarter, yes.

- Jayesh Parekh:** And regarding merger?
- Haresh Khilnani:** Regarding merger, we are going as per our track. We have already sent the result of postal ballot yesterday to the stock exchanges for the SAI, for SAI you can say it is a private limited company so we got the dispensation of meeting. Now what happens, we need to have the approval of the Ministry of Corporate Affairs and also the office of Official Liquidator for SIN. So these offices generally take three to four months time to issue their report to the High Court after which only the matter is actually heard in the High Court. So we expect that by end of March 2016 we would be through with this merger.
- Jayesh Parekh:** Till such time is there any possibility of giving some data by way of footnote in the quarterly results about at least sales and bottom-line of subsidiary company?
- Bhupesh P. Porwal:** Jayesh bhai we can explore this, we do not have an answer right now whether there is possibility or not. So may be one more quarter to go and then March will be the consolidated results only. So yes, I can understand your point of view but right now I do not have an answer to this.
- Moderator:** Thank you. Our next question is from the line of Dhawal Shah from Sidhesh Capital. Please go ahead.
- Dhawal Shah:** Sir first I have a couple of questions, my first question is regard to the margins of the company. Now this quarter we have made approximately 25% in the gross margin compared to around 31% last quarter, so can you explain me the fluctuation of 5% in our gross margin?
- Bhupesh P. Porwal:** In last quarter we had some inventory gains, in this quarter we have some inventory loss, so this is not an apple-to-apple comparison in terms of margins, our gross margins are steady as we had in some previous quarter in normal condition, so these are not apple-to-apple comparison.
- Dhawal Shah:** Sir last quarter I mean the June quarter.
- Bhupesh P. Porwal:** Yes, I understand. So June had inventory gains due to the pricing increasing in that quarter and this quarter the prices were decreasing so we had some inventory loss.
- Dhawal Shah:** So if you remove the inventory gain and loss, what would be that number on the gross margin side?
- Bhupesh P. Porwal:** Both the quarters number will be more or less same.
- Dhawal Shah:** So it will be around 25%, 27% or it will be near 30%?
- M.S. Chi:** If we remove it will be roughly 28%.
- Dhawal Shah:** Sorry, unable to understand, can you please repeat?



**M.S. Chi:** If we remove inventory gain in June quarter and we remove inventory loss in the September quarter then gross margin rate will be approximately 28%.

**Dhawal Shah:** And sir now what is your current capacity on the specialty grade ABS and SAM side?

**M.S. Chi:** Our SAM capacity is 100,000, our ABS capacity is 110,000 but we cannot distinguish between commodity and specialty product because we can produce both specialty and commodity in the same plant. So depending on our sales volume we produce some quantity of specialty and also we produce some quantity of commodity grade.

**Dhawal Shah:** What is the size of market for specialty grade ABS in India?

**M.S. Chi:** Total ABS demand last year was 155,000 metric ton. Out of 155,000 metric ton, specialty market was roughly 55% and commodity market was roughly 45%.

**Dhawal Shah:** And sir what is your outlook on the demand for this year?

**M.S. Chi:** First of all because of very poor monsoon rural economy is not good, so the two wheeler industry was affected, so two wheeler there is no growth this year. But four wheeler year-to-date September quarter four wheeler industry has grown by 4%, in October thanks to rate cut from the RBI and also the new launch of new models four wheeler automotive sales has grown by 20% in October month which was a third highest growth rate in the history of Indian automotive industry. So overall this financial year we expect a four wheeler industry demand will grow by more than 6% and then household appliance is also second biggest industry in India, household appliance like refrigerator, this year there was not good, so there is no growth in air conditioner and also refrigerator was not grown, but washing machine has grown by 10% and due to Tamil Nadu project also small mixers has grown very fast. So overall this household appliance will grow by around 9% to 10%. So in average we expect including generalization of the market roughly 9% to 10% will grow.

**Dhawal Shah:** 9% to 10% which market?

**M.S. Chi:** ABS market, yes.

**Dhawal Shah:** So what is Styrolution's market share in India in ABS?

**M.S. Chi:** At this moment 42%.

**Dhawal Shah:** And who is the other competitor?

**M.S. Chi:** Other competitor is Bhansali which has roughly 20% market share, so that is from import.

**Dhawal Shah:** So Bhansali is a competitor in the specialty of commodity grade?

**M.S. Chi:** Both.

**Dhawal Shah:** So now sir Bhansali as you rightly mentioned the competitor is going for very big capacity expansion and has announced very big plans and also have signed a JV with Nippon, so do you think the competition to be very furious going ahead and which would have some impact on our market share plus pricing?

**M.S. Chi:** First of all, I think the market demand is growing continuously and also we expand our capacity by 30,000 at the end of last year and Bhansali announced to invest one big extruder bit still if you see the volume then their volume is not growing very much, if you see same quarter still their sales revenue is less than 40% of ours. So there is always a threat for a severe competition in coming years but I think that is within a normal competition range.

**Dhawal Shah:** Sir see Styrolution is a global company with a very strong parent, but when you see the EBITDA margin now especially in the standalone number which is only reflecting the ABS business, so they do not seem to be very impressed, when you compare the EBITDA margin of Bhansali so they are not too much different, so where does our superior being have a global presence come into play but that number is not reflecting in the margin.

**M.S. Chi:** So first, if you see the results of past 2 to 3 years and if you see a difference and their performance was also almost half, less than half of our EBITDA ratio but recently there was some good result, the high EBITDA rate but we have to analyze more but their sales volume this year, there sales volume growth is much less than ours in terms of the growth rate if we compare their income this year compared to last year, so growth is less than us. But I cannot say how come their EBITDA rate improved, less growth, so we have to study further.

**Dhawal Shah:** So just last question now, now Styrolution has many specialty grade of polymer, plastics with them. At the parent level and I mean at the global level, so now how many newer products will Styrolution launch into India through your company, just want to know which will help us in penetrating into the customers. Because currently if I understand many of the thermoplastics and the specialty engineered polymers are more important into the country but going forward how will it be?

**M.S. Chi:** So I think first of all to cover Indian market first of all we import some product to Indian market and this sales is growing then we localize the production in India. One incident was the Luran S which had eight specialty ideas and we reached in 2014 this one and we are growing this also very fast and also high heat ideas also we are launching since 2013. And also we are also doing India's beginning importing some specialty healthcare grade and some specialty product, so we are doing some business by importing. But once this wholly is grown then we may localize the production in India, that is our overall plan.

**Moderator:** Thank you. Our next question is from the line of Neerav Jimudia from Anvil Research. Please go ahead.

**Neerav Jimudia:** Sir I had just three set of questions, actually out of our first half volumes of around 46,000 odd tons what is the breakup between the ABS and the same volumes, if you can provide us.

- M.S. Chi:** That was around 85% to 87% is ABS.
- Neerav Jimudia:** Sir second question is regarding our power cost, sir if I look at your power schedule sir last year our average purchase cost in Gujarat was around Rs.48 per SEN if I am not wrong and sir after that in Gujarat we have seen that the prices of the industrial LNG has been reduced considerably with the fall in the LNG prices, so what has been the benefit accrued to us in this first half of this financial year? So last year out of this our natural gas purchase cost was something around 11 crores out of our total power cost. So what has been the benefit in the first half if you could give?
- Bhupesh P. Porwal:** See, if you see our financials and if you see electricity cost, overall power and fuel have been decreased, basically yes the power cost has also decreased per unit, there is a decrease into per unit but not a significant one in terms of what you are talking, from Government of Gujarat, but still it has reduced. The second is that we have been able to also generate more from our windmill, so the credit of windmill generation is also more in this quarter. So both put together there is a decrease in power and fuel. What was the second question?
- Neerav Jimudia:** Okay, thank you.
- Moderator:** We will go to our next question sir, it is from the line of Rudhraiya Burma from KSA Securities. Please go ahead.
- Sanjay Shah:** Hello, this is Sanjay Shah here. Many of my questions have been answered, the only thing which is unanswered and asked by many follow-up questions was regarding our subsidiary, sir can you throw some light how we are panning out in this volatile raw material prices of monomer falling from \$1400 to \$900 plus, so how we are doing in that and how do you see growth in that business?
- M.S. Chi:** I think that is one concern in this poor commodity business like the polystyrene, so there will be always upside and downside of raw material price. So the operation is to minimize the risk during downside so we are not speculating, so always our operation is to minimize our inventory to minimize the risk when there is a shortfall in raw material price and also crude oil price. And then wherever there is upside we maximize our profit to maximize our margin, so that is our general policy. So even though there is a bit negative impact in Q2, Q2 was sharper in crude oil price but we had also big gain in Q1 and also Q4 last year, so overall year-to-date September, from January to September we were not so much negatively affected. But yes definitely Q2 we have a negative impact.
- Sanjay Shah:** But sir as you rightly said being a commodity type of business Styrolution India do we plan any value addition product, value added products in that, some valuable product whereby we can increase our margin in that segment?
- M.S. Chi:** There is some limitation in polystyrene product but nevertheless we have premium grades in HIPS, so like high growth HIPS and so called chemical resistant HIPS grade so we are



focusing on the demand of this specialty grade, it will continue to improve our overall margin, yes we are making a profit.

**Moderator:** Thank you. Our next question is from the line of Jayesh Parekh from JMP Capital. Please go ahead.

**Jayesh Parekh:** Sir one small follow-up question, you said that due to lack of two wheeler demand in rural area it has affected to some extent our sales, now what percentage of sales in last six months has gone to two wheeler sir?

**M.S. Chi:** So there was no growth in two wheeler industry but our sales in two wheeler industry has grown by around 3% that means overall we improved our market share in this business because two wheeler industry we can sell our premium rate and thereby we can achieve higher margin. So we still focus on development out of this market and maintaining our market share more than 55%, that is our approach.

**Jayesh Parekh:** No, my point is that you said that there is a reduction in the demand of two wheeler and that has affected our volume.

**M.S. Chi:** That was as of last quarter right?

**Jayesh Parekh:** In last six months or last quarter.

**M.S. Chi:** So I explained that overall two wheeler industry has flat growth.

**Bhupesh P. Porwal:** So what exactly Jayesh you want to know about it?

**Jayesh Parekh:** See, what I want to know is that our MD said that there was a lack of demand, I mean two wheeler industry is not doing well and that has affected our sales, in one of answer he said like that. Now according to my data, two wheeler industry from April till September motorcycle has grown by about 3% and in fact the scooter segment has gone up by more than 20%, 22%, if you see the data of all the two wheeler OEM manufacturer and the data displayed by SIAM on automotive side, plus the passenger car volume in last six month has also gone up by 3% to 4%, net consolidated of all the manufacturer. So I was just wondering that how this can adversely affect our volume?

**M.S. Chi:** No, our sales volume was not affected, let me explain much of it. In financial year Q2 2015 there was no growth in two wheeler industry in spite of growth in scooters, scooter sales has grown by 12% but there was a sharp drop in motorcycles, so overall there was no growth in Q3 but I said that our sales has grown by around 3%. So that was our performance.

**Moderator:** Thank you. Our next question is from the line of KS Batra. Please go ahead.

**KS Batra:** My most of the queries are replied, just wanted to know how much exactly are this inventory losses in the second quarter and just wanted to know if there is any loss in our subsidiary on



this inventory part because I saw the result so of Supreme Petro, I think our subsidiary product is similar to that, so just wanted to know to what extent we have made losses on the inventory side in our subsidiary for the quarter.

**Bhupesh P. Porwal:** So Mr. Batra as explained by your MD this inventory gains and loss are part of the raw material prices going up and down and as we explained, if you talk about last September till date in fact as a total completed this period in this period there was if you total it together there is no inventory gain or loss, point number one. Point number two, yes in a short period of time if you take a Quarter like this, yes we had a loss definitely both in standalone as well as our subsidiary also. As you rightly said, Supreme is also into the similar sector, yes they have some more variety of products and they have a trading business also, which we do not have, but yes in subsidiary also we had some inventory losses. But if you talk about last nine months in subsidiary also we did not had any inventory loss.

**Moderator:** Thank you. Our next question is from the line of Neerav Jimudia from Anvil Research. Please go ahead.

**Neerav Jimudia:** Sorry my line got disconnected last time, sir I was just asking the question on the power side, so what was the benefit in H1 on the power side?

**Bhupesh P. Porwal:** Yes, if you are asking about half year also there is a decrease in electricity cost maybe per unit rate has also decreased and we had also got some benefits due to our gas consumptions and third thing is about our windmill generation, as a normal seasonal thing this season is good for the windmill credit. So overall the power and fuel cost is lower in this period.

**Neerav Jimudia:** And sir if I see you presentation, in one slide you have shown that there was an increase in the working capital by around 37 crores despite of our finished product sizes on year-on-year basis remaining the same let's say from March to September, so any particular reason for this increase in the working capital, because I saw your sundry creditors going down from 150 crores to 113 crores in this half year, so sir any particular reason for the same?

**Bhupesh P. Porwal:** So exactly you have answered my point already, it was due to the payables part and this is a cyclic thing, sometimes you get some vessels together at a particular moment of time due to the logistics issue or the shipment thing and not due to over planning and then you get two or three vessels together and then you have to pay together all the three, so I think this cannot be compared quarter-to-quarter and that is the reason this working capital has increased.

**Neerav Jimudia:** And sir just last question, just a clarification, if I understood it correct sir, if I exclude the inventory gain and the inventory loss, say in a steady state what I heard is like our gross margins is 28% if I exclude the inventory gain or if I exclude the inventory loss. So in a steady state our gross margins can be around 27%, 28%.

**M.S. Chi:** 28% to 29% that is what I want to say.



- Moderator:** Thank you. Our next question is from the line of Dhawal Shah from Sidhesh Capital. Please go ahead.
- Dhawal Shah:** Sir my question is, see this company is about major client is automobile industry for us and the growth of our company would mainly rely upon the growth in automobile followed growth in white goods. So how much has the use of plastic in automobile increased in the last five years and what trend are you seeing going forward?
- Bhupesh P. Porwal:** Can we have any other question up till we are ready with the answer of it?
- Dhawal Shah:** Sure. And my second is, so out of our 110,000 of ABS capacity how much is the capacity utilization?
- M.S. Chi:** At this moment our capacity utilization is roughly 70%.
- Dhawal Shah:** So around 70,000 tons of ABS you produced and sold in the first half?
- M.S. Chi:** Annual capacity is 110,000, utilised maybe annually 75,000 around that, so our overall capacity utilization rate will be 70%. We have extended our capacity end of last year so it will take some time to build up the capacity.
- Dhawal Shah:** So any further expansion plan for ABS?
- M.S. Chi:** We are starting, yes.
- Dhawal Shah:** And the new expansion should come up at the Dahej land which we have got with this acquisition?
- M.S. Chi:** Yes.
- Dhawal Shah:** And sir my answer for my first question? So before that, so which is the highest, in automobiles two wheeler or the four wheeler is where our products are used more?
- Bhupesh P. Porwal:** Two wheelers.
- M.S. Chi:** Two wheeler is roughly 20% in total ABS demand, four wheeler is roughly 10%, I can say it so overall 30%, yes two wheeler is higher.
- Dhawal Shah:** So roughly if you assume like a normal bike, a Bajaj Bike, how many kgs of ABS would be consumed per bike?
- M.S. Chi:** It depends on the model but in average 2 kg to 3 kg you can use.
- Dhawal Shah:** And per four wheeler?

- M.S. Chi:** Four wheeler, you can estimate 5 kg to 6 kg.
- Dhawal Shah:** And now many global OEMs have come and set up shop in India, so has the indigenization happened completely I mean for this four wheeler guys, I mean what I mean is that have they stopped importing completely the ABS and started buying from the domestic market that is you and Bhansali or import is still on?
- M.S. Chi:** I think so mainly they purchase from domestic local supplier rather than import but there is also some tough competition from imported, but major supply is from local domestic supply.
- Dhawal Shah:** So major sourcing is done from local market?
- M.S. Chi:** Yes, that is their general policy. So for instance, in case of Hyundai they import it from Korea but they made a task force team to source the material from import to local, so now due to this the policy we started our business with Hyundai from last year and we are continuously growing even in Hyundai.
- Dhawal Shah:** So how does the vendor selection happen? So I assume you are not the direct supplier to maybe a Bajaj Auto or Hero Honda, you must be supplying to the ancillary guy of Bajaj Auto or a Hero Honda, so how does this vendor selection happen?
- M.S. Chi:** The OEMs like Hero Motors or the Bajaj or the Hyundai or Maruti Suzuki, first of all the test the top most of the material and then they give the approval for this material and then they list of their material, the product list and also vendor list and then they inform to the vendors who directly purchase our material to make the part of automotive or two wheeler and then this vendor can buy the material only from approved shops that is the normal general procedure for the material selection and purchase.
- Dhawal Shah:** And sir just coming back to this requirement of our ABS plastic per unit of our product, so you told me for bike and four wheeler and for white good how much it would be, example for a refrigerator or for a washing machine?
- M.S. Chi:** You are asking too much detail, but the washing machine it depends on the size, so washing machine, the consumption is also 1 to 2kg and the refrigerator it is 3kg to 4kg, depends on the motor size. So in case of bigger refrigerator they use more than 10 kg, but in case of small refrigerator they use only 2kg to 3kg, so it will more the size. But overall India the refrigerator or the white goods size is not such big so you can consider maybe 2kg to 3kg.
- Dhawal Shah:** And sir my answer for first question.
- M.S. Chi:** I have no history data, but if I compare 2012 to 2013 the four wheeler industry has grown by 5.6% but we expect it will grow by 11.6% in the coming years So that is our forecast, but this forecast is based on the OEMs forecast and also industry forecast, they forecast 13% per annum growth but it takes some conservative figure so we forecast roughly 11% in the coming years for four wheeler. In two wheeler case, 2013-14 it grew by 11% but in the coming year



we forecast it will grown by around 8% because the penetration rate of two wheeler is already very high so India we are selling roughly 40 million two wheeler per year but the China it is they have maximum of sales of two wheeler was 50 million to 60 million in the history, so India is also reaching benchmark so in the coming years the growth will be slowed down compared to past so that's the reason we forecast only 8% in the coming year until 2020.

**Moderator:** We will take our last question from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

**Arjun Sengar:** What was the inventory loss for the quarter?

**Bhupesh P. Porwal:** I think Arjun you joined late, we answered this, yes there has been an inventory loss but maybe we cannot quantify this what was the loss in this quarter but yes definitely there was a loss because as SM went from approx. \$1350 to \$915, but as a consolidated thing if you see as last nine months yes there was no inventory gain or loss.

**Arjun Sengar:** But you won't have the exact number for the loss?

**Bhupesh P. Porwal:** yes.

**Arjun Sengar:** And how is it looking in October?

**Bhupesh P. Porwal:** October is quite stable and right now what we see is that next two months also what we can visualize as per the current data is that I think market should be stable now.

**Arjun Sengar:** So if crude prices stay where they are right now for the next quarter you do not expect any inventory loss?

**Bhupesh P. Porwal:** Yes.

**M.S. Chi:** There is some but they are very minimum.

**Moderator:** Thank you. I would now like to hand the floor over to the management for closing comments.

**M.S. Chi:** Yes. Thank you very much for your participation. Should have any further question please tell us in email by then we can reply.

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