



“INEOS Styrolution India Limited Q2 FY-17 Results
Earnings Call”

November 14, 2016



MANAGEMENT: **MR. SANJIV VASUDEVA –MANAGING DIRECTOR, INEOS
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**MR. HARESH KHILNANI – COMPANY SECRETARY & HEAD-
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Moderator: Good day, ladies and gentlemen. And a very warm welcome to the Ineos Styrolution India Limited's Second Quarter ended on 30 September 2016 Results Conference Call. We have with us today Mr. Sanjiv Vasudeva –Managing Director; Mr. Bhupesh P. Porwal – Chief Financial Officer; Mr. Haresh Khilnani – Company Secretary & Head-Legal; Mr. Adil Marawala – Communications Head from the management side of Styrolution ABS.

As a reminder, all participants' 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 am now glad to hand the conference over to Mr. Haresh Khilnani – Company Secretary & Head-Legal. Thank you and over to you, sir.

Haresh Khilnani: Good afternoon and once again I welcome you all to this Earnings Call for the second quarter ended 30 September 2016. Your questions would be mainly answered by Mr. Sanjiv Vasudeva, MD of our company and Mr. Bhupesh Porwal who is the CFO of our company. Wherever it is required myself and Adil who is our Communication Manager would intervene and try to sort it out.

So thanks everyone and over to Bhupesh now.

Bhupesh Porwal: Good afternoon, dear shareholders, investors and analyst fraternity. We welcome you to this earning call. Your company Ineos Styrolution India Limited, had declared its results for second quarter and half year ended 30th September 2016 on the 11th November 2016. I will brief about the major highlights of the performance. Regarding year-to-date performance, profit before tax increased from Rs. 3,765 lakhs in previous periods YTD September 2015 to Rs. 5,225 lakhs in current period YTD 2016 that is 39% increase in profit before tax. Profit before tax increased mainly due to competitive pricing and focus on the margin improvements.

Sales volume decreased by approximate 3 KT from 72 KT in previous half year to 69 KT in current half year. It was mainly due to lower production which was impacted by constrained supply of key raw material Butadiene during Quarter 1 of financial year 2016-17 which we discussed in last earnings calls also. Gross sales decreased from Rs. 94,192 lakhs in previous period to Rs. 83,910 lakhs in current period, which is approximate 11% and this reduction is mainly due to decrease in basic raw material prices and the international market prices of the finished good and constant supply of key raw materials Butadiene during Quarter 1 of 2016-17 period.

Regarding quarterly performance, profit before tax increased from Rs. 2,273 lakhs in previous quarter to Rs. 2,952 lakhs in current quarter that is 30% increase in profit before tax as compared to previous quarter. PBT increased mainly due to increase in sales volume by

approximate 1.2 KT competitive pricing and focus on the margin improvement exercise. Sales revenue increased mainly due to increase in sales volume by 1.2 KT from 33.8 KT in previous quarters, to 35 KT in current quarter. This increase is mainly led by improved raw material availability in current quarters as compared to the previous quarter. Profit before tax increased as compared to corresponding quarter of the previous year as well, it has increased from Rs. 19.22 lakhs in corresponding previous year quarter to Rs. 2,952 lakhs in the current quarter.

Last year quarter was an exceptional quarter due to sharp fall in crude oil prices and raw material prices there was a huge inventory loss and may not be exactly comparable. Regarding segmental result, the first segment specialties the revenue has increased from Rs. 28,199 lakhs in previous quarters to Rs. 29,645 lakhs in current quarter. So there is an increase of approximate 5%. Specialties profit before interest tax and other unallocable expenditure is also increased from Rs. 2,669 lakhs in previous quarters to Rs. 3,229 lakhs in the current quarter an increase of approximate 21%.

In polystyrene segment revenue marginally decreased from Rs. 13,121 lakhs in previous quarters to Rs. 12,946 lakhs in current quarter the decrease is mainly led by reduction in global prices of polystyrene. Polystyrene profits before interest tax and other unallocable expenditure is increased from Rs. 113 lakhs in previous quarter to Rs. 197 lakhs in current quarter and hence an increase of roughly 74%. In tax side also if you will see profit after tax for the quarter and half year ended 30th September 2015 includes tax credit of Rs. 1,921 lakhs consequent to the amalgamation of Styrolution India Private Limited with the company with effect from April 1st 2015. For details you must have referred note number 6 and 7 in the published results.

We can go forward for the queries or any clarification which is needed now. Thank you.

Moderator: Thank you very much. Ladies and gentlemen, we will now begin the question-and-answer session.

We have the first question from Madhuchanda Dey from Equinomics. Please go ahead.

Madhuchanda Dey: I have couple of questions which are not exactly pertaining to the result, but little bit on the longer-term outlook. I wanted to check what is the level of capacity utilization that you are working on at the moment?

Bhupesh Porwal: Okay, so if you see about level of capacities, in terms of we make intermediaries also I think we are interacting first time so maybe I will just give you the background of this. So with the intermediaries we are sufficient with the capacities because we had squandered in 2014 for both of our San and the Rubber capacities. And in relation to our main ABS manufacturing our capacities are roughly 90% which are utilized right now inhouse and maybe and polystyrene also the capacities are utilized in the range of maybe 70% to 80% depending upon the market situation.

- Madhuchanda Dey:** Okay so I mean this is going to be enough for how many more years before you plan another CAPEX?
- Bhupesh Porwal:** So for intermediaries we have still for next couple of years and for compounding we are already using some OEM type of thing Taller manufacturing. We are using Tallers to manufacture our product so that is going on since last two years. We have experimented it and found it successful. So we are using that board right now for that.
- Madhuchanda Dey:** Okay so you will continue to do an outsourcing kind of an arrangement rather than expanding capacity if that works out more economical for you?
- Bhupesh Porwal:** We evaluated on a periodic basis and so decisions are based on what comes after next quarter or six months and then maybe we can evaluate we can change our decisions also. So it is all upon plus and pros and cons of both the things on a periodic basis.
- Madhuchanda Dey:** Okay so my next question is as in the opening remarks you mentioned about the focus on one was on competitive pricing and the second is on margin. So I really wanted to understand what is the margin trajectory that you are looking at and what are the key things that you are working on to improve the margin trajectory from here on?
- Sanjiv Vasudeva:** Okay hi this is Sanjiv, I will take that question. Basically to improve our margins, right we try to sell more in some specific segments like automotive where we see relatively better margins than some of the other segments that we play in. So various goals in multiple segments, yes, so that is one. Secondly, we continuously try to upgrade our product portfolio either with product tweaks or with new products to be able to command improved margins and more competitive pricing for those specific products. It is a combination of product mix up and in which segments we play in.
- Madhuchanda Dey:** So I was just going through your Annual Report and it mentioned that there has been a change in the structures from a product specific verticalization to an industry specific verticalization that was something which was mentioned. So in that context I wanted to understand that in terms of industries if you could give us some color on the dependents or so to speak of which is the most important industry and what percentage of sale would that constitute and if you could just throw some rough numbers for us to understand your industry exposures?
- Sanjiv Vasudeva:** Well, we do not disclose the specific numbers of each industry but what I can tell you that we play in automotive two-wheelers, households.
- Madhuchanda Dey:** Yes but in terms of speaking other if you could give us some sense?
- Sanjiv Vasudeva:** Well, the two big segments that we have are automotive and household.
- Madhuchanda Dey:** Okay. And of this automotive as you mentioned would be one big margin driver going forward as well because you come up with more innovative products in that space, am I right?

- Sanjiv Vasudeva:** Yes Correct.
- Madhuchanda Dey:** So I mean it is not a guidance but just a ballpark given whatever you are working on in terms of the cost economies and product development what kind of an improvement are you targeting for the next couple of years in terms of EBITDA margin?
- Sanjiv Vasudeva:** Overall for the business?
- Madhuchanda Dey:** Yes and if you could give me segments that would be even better?
- Sanjiv Vasudeva:** Well, let me ask you a first question. I think from a EBITDA margin improvement surely here we look on year-on-year EBITDA growth and we have like you just mentioned earlier the triple shift strategy is what you were referring to, Yes industry for work, focus on specific geography on specific products. We are sweeping which we are trying to do and given these three we want to improve our margins on a year-on-year basis. As of today we are I mean last quarter we were at 8.5% EBITDA business. Surely we would like to double digit EBITDA business.
- Madhuchanda Dey:** And that is the target for what kind of a time frame?
- Sanjiv Vasudeva:** Well, we would likely to be next quarter but you know one has to see how the market shapes up and how the market delta margin shape up. So there are a lot of other factors depending on it. So directionally we would like to be in double-digit as a business. So that answers your first question. And what was your second question?
- Madhuchanda Dey:** My second question was now that I mean you have amalgamated that company where I do not have a direct number but my sense would be the average EBITDA margin for that business is much lower than the business that you already had. So what are the things that you are working on to improve the EBITDA margin of that business? And you also mentioned that there was a.
- Sanjiv Vasudeva:** Yes, I think you are talking about polystyrene, right?
- Madhuchanda Dey:** Yes.
- Sanjiv Vasudeva:** Look directionally the key focus there is on the cost, and over the last year we have tried to work on the cost and harmonization you know synergies between the two businesses. And as you know it is a commodity business. And we see both upward and downward trend in the demand and its profitability in principle is tied to global market delta margins which depends on the global market scenario. So you know from a polystyrene perspective, I think I have said earlier also last time that that much you can do. You can work on running the plants well, you work on improve and have a good cost position and you know because it is a limit product portfolio Yes it is not like we have hundred grades there.

So have your back end in good order and your market delta margins will define based on what is happening with the global supply demand scenario, the profitability that you are going to have. So you may have a one year or a couple of quarters where you will make a lot of money, but there will be quarters where you will just scrape through. So that is the reality of that polystyrene business. Coming to the ABS business on the product side, like I said there are a lot of new programs that we are trying to work on both in the automotive and the household which are the two key segments for us and like I said we work on both product tweaks and new products.

Madhuchanda Dey: Okay and just wanted to understand now that this polystyrene is a more commoditized business so will that make your earnings a lot more volatile than otherwise on the commodity cycle as a whole? And what kind of lead lag typically does this business have to bear in terms of raw material prices what kind of inventory?

Sanjiv Vasudeva: So you had two questions, can you repeat the first one please?

Madhuchanda Dey: Yes, my first question is now that polystyrene business is a part of your company and which is more commoditized does this mean that your EBITDA margin will see lot more vagaries than what was before? That was my first question. And in terms of typically these kinds of commoditized business tends to gain at certain points in the commodity cycle and tends to move out depending on the inventory adjustment of the raw material. So what kind of lead lag does this business experience in its life cycle? Am I clear in my question?

Sanjiv Vasudeva: Okay on the polystyrene affecting the overall business, you know being a more commoditized, yes there is an effect of that on a quarter-to-quarter basis. Now that is obviously because that I what commodity is. But that is one part and typically the raw material let me take an example of oil right our crude oil in the last one month has gone from 2,900 to 3,400 in the last quarter. If you see over the last quarter, right. So they were months or days where it was at 3,200, went to 3,400, back to 2,900. So it depends on the specific shipment that you have had and what specific inventory you are carrying.

So the typical drag on quarter-to-quarter you have an effect of the raw material inventory that you have so and you really cannot time some of these things. So we typically look at it and report on a quarterly business so quarterly whenever Bhupesh will talk about the results he will sometime mention about the raw material gain, inventory gain or loss. So measuring and working on this on a monthly basis does not make sense. So typically we measure our business on a quarterly basis with the raw material gain or loss. So that is how we generally talk about it.

Madhuchanda Dey: So if I may ask you what kind of raw mats or for how long do you typically forward book the raw material, what is the policy for booking raw material and what kind of process do you have there in terms of price adjustment?

- Sanjiv Vasudeva:** Well, we have monthly purchases of raw materials so like I said.
- Madhuchanda Dey:** You do not have very long inventory, but not an inventory of three months or whatever?
- Sanjiv Vasudeva:** No, like I said we have monthly purchases but they are lead times, right. In India polystyrene is not manufactured, all the polystyrene is imported from Middle East or from South East Asia. So you can imagine if the lead times are itself 15 days to 30 days that is the kind of inventory we need to carry.
- Madhuchanda Dey:** Okay so typically a 15 to 30 days' kind of an inventory you carry.
- Moderator:** Thank you. We have the next question from the line of Bharath Subramanian from Sundaram Mutual Fund. Please go ahead.
- Bharath Subramanian:** Couple of questions. What is on the industry end user industry we have seen some of the non-auto segments be it air-conditioners or some of the white goods clock strong double-digits and even on the auto side it has been fairly higher than what was recorded last year. So from our market growth perspective, in the first six months of the current year how much would have the industry grown and from capturing that growth perspective has imports taken some share of it, given the concerns that we had in the first quarter?
- Sanjiv Vasudeva:** My take on this is the industry has still grown by about 8% or so across average across all the segments and it does not reflect in our numbers. Now a part of it is a hangover from the Q1. If you remember we had mentioned about butadiene shortage affected in our final production. So what typically happens is you know when you have that kind of a quarter you also have a lot of import coming in and import comes in bulk and that has an effect on your next quarter. So we have had partial effect of partial hangover again because of the shortages we had of butadiene and excess imports that has come in.
- Bharath Subramanian:** Okay, so is it fair to assume that incrementally from here on from our perspective we would be able to kind of recoup the share what was lost in the first quarter?
- Sanjiv Vasudeva:** Yes.
- Bharath Subramanian:** And typically from a OEM perspective, if one looks at auto OEMs how sticky is the volumes like is it kind of a swing demand which moves between imports and domestic supply base depending on pricing or is the relationship far more stickier than what one assumes?
- Sanjiv Vasudeva:** I think automotive by industry is a bit more stickier because they believe in just in time deliveries right. So anyone us or our competitor having a local production would always have a bit of a advantage over say an import guy who may be selling bulk material this month versus the next month. So the surety of supply is very critical for those guys. So that way it is a relatively more secured business. Having said that you need to have a value proposition and a competitive advantage over others.

- Bharath Subramanian:** And for us roughly how much would auto constitute sir, auto as a segment?
- Sanjiv Vasudeva:** Like I said we do not declare our segment results.
- Bharath Subramanian:** Okay and if you can also give some perspective in terms of the ABS industry per se we have seen margins kind of being driven from where it stood last year and globally on non-integrated basis are there any capacity adds coming back in this space which can kind of disturb these trends or is it still too early to look out for?
- Sanjiv Vasudeva:** The macro picture what I understand is there is not any major capacity additions in the ABS globally. So and typically it takes three to four years for someone to have that kind of capacity. So there are a couple of guys who have talked about adding capacities in China but leaving aside that we are not seeing any major announcements Yes.
- Bharath Subramanian:** Okay now the reason why I asked is in terms of looking at our capacity utilization currently where you said you are at 90% in ABS and looking at the end user industry growth rates, at what trigger point would we be looking at investing in terms of our existing capacities?
- Sanjiv Vasudeva:** Well, we will make the decision when we see the right kind of returns on our investment. But like Bhupesh also mentioned we are catering to our increased demand through contract trolling. So that option is always there and the present capacities on the intermediates are good enough for the next few years. Having said that we also have plans globally that can support the India growth being part of the bigger Ineos Styrolution family. So we need to weigh all those options of our global supplier from Germany or from our other plants in Asia versus whether we need to add capacity.
- Bharath Subramanian:** Okay and just one last question on the import side if you can give any color on is it again predominantly from some of our neighbors or is it from the European markets where exactly is the imports from and how typically on the pricing front what could be the differential between assets and the imports?
- Sanjiv Vasudeva:** Well, imports are predominantly from Korea. I cannot really comment on the pricing differential but I would just say that they are relatively lower than us by a few percentage points.
- 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.
- Haresh Khilnani:** Thank you all for attending this earnings call. And in case you still have any further questions or you need any further clarifications, you can contact us any time through phone call or e-mail and you can also visit our website wherein the transcript of this call will also be available in the next 48 hours. So thank you once again and have a lovely evening ahead.

Moderator:

Thank you. Ladies and gentlemen, on behalf of Styrolution ABS Limited, that concludes this conference call for today. Thank you for joining us and you may now disconnect your lines.