



“INEOS Styrolution India Limited
Q2 FY2020 Results Conference Call”

November 12, 2019



MANAGEMENT:

**MR. SANJIV VASUDEVA – MANAGING
DIRECTOR – INEOS STYROLUTION INDIA
LIMITED**

**MR. SANJEEV MADAN – CHIEF FINANCIAL
OFFICER – INEOS STYROLUTION INDIA
LIMITED**

**MR. ABHIJAAT SINHA – HEAD LEGAL &
COMPANY SECRETARY – INEOS STYROLUTION
INDIA LIMITED**

**MR. MUNJAL PAREKH – HEAD CONTROLLING –
INEOS STYROLUTION INDIA LIMITED**

**MR. ADIL MARAWALA – MANAGER
CORPORATE COMMUNICATION – INEOS
STYROLUTION INDIA LIMITED**

**MS. AMITA MISTRY – COMPLIANCE OFFICER –
INEOS STYROLUTION INDIA LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the INEOS Styrolution India Limited FY2020 earnings Conference Call. We have with us from the management of INEOS Styrolution India Limited Mr. Sanjiv Vasudeva, Managing Director, Mr. Sanjeev Madan, Chief Financial Officer, Mr. Abhijaat Sinha, Head Legal & Company Secretary, Mr. Munjal Parekh, Head Controlling, Ms. Amita Mistry, Compliance Officer. 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 would now like to hand the conference over to the management. Thank you and over to you all!

Sanjeev Madan:

Dear Shareholders, investors & analysts fraternity, we welcome you to this earning call.

Your Company, INEOS Styrolution India Limited, has declared its results for Half-year ended Sep 30, 2019 on 8th Nov, 2019. We will brief you about the major highlights of the performance.

Regarding quarterly performance,

Profit Before Tax in Jul-Sep 19 stands at INR 705 Lakhs as compared to Profit of INR 1,073 Lakhs in Jul-Sep 18. Revenue (net of GST) from operations in current quarter is INR 43,684 Lakhs as compared to INR 56,837 Lacs in Jul-Sep 18. Profit Before Tax in Jul-Sep 19 stands at INR 705 Lakhs as compared to Profit of INR 1,433 Lakhs in previous quarter. Revenue (net of GST) from operations in current quarter is INR 43,684 Lakhs as compared to INR 44,348 Lacs in previous quarter.

Regarding year-to-date performance,

Profit Before Tax in YTD Sep 2019 stands at INR 2,138 Lakhs as compared to profit of INR 3,732 Lakhs in YTD Sep 18. Revenue (net of GST) from operations stands at INR 88,032 Lakhs in YTD Sep 19 as compared to INR 116,283 Lacs in YTD Sep 18.

Segment Results:

Specialties: Profit before Interest, tax and other unallocable expenditure stands at INR 1,408 Lacs in current quarter as compared to INR 1,055 Lacs in previous quarter.

PS: Loss before Interest, tax and other unallocable expenditure is INR 94 Lacs in current quarter as compared to profit of INR 585 Lacs in previous quarter.

The Company has elected to exercise the option permitted under section 115BAA of the Income-tax Act, 1961 as introduced by the Taxation Laws (Amendment) Ordinance, 2019. Accordingly,

the Company has recognized Provision for Current Tax for the six months ended September 30, 2019 and re-measured its Deferred Tax basis the rate prescribed in the said section. The full impact of this change has been recognized in the financial results for the quarter ended September 30, 2019.

So this is all about clarification and details about our financials. We can go forward for the queries or any clarifications, which are needed.

Moderator: Thank you very much. We will now begin the question and answer session. The first question is from the line of Sridhar Parthasarthy from IKea Ventures Please go ahead.

Sridhar Parthasarthy: A couple of questions. First, in terms of outlook award looks like the overall market type you can give some perspective about that and a couple of questions around the business per se? Question #1 is why do we have this kind of low margin, I understand that about a year or back we had a steep drop in polystyrene prices and therefore there was some element of loss which we booked, but even now if you really look at specialty chemicals, we are talking about margins, at an operating level you are talking about 4% to 5% and polystyrene anyway making losses, so why is that and what is the outlook for that? That is my question #1. You want me to go ahead and ask all the questions or you want kind of take it one at a time. The next question the capital work-in-progress is about Rs. 141 Crores in the book continue to increase than in this book wanted to get some color on that. Next question, you had mentioned that there is a right of use asset and I am also seeing a lease liability, what are these two items? The last question there is a big jump in the trade payables from somewhere around from Rs. 185 Crores to Rs. 228 Crores which in a way is good you are really squeezing the working capital and things ahead, but my only question is it sustainable? Could you use that money to repay your borrowings and bring down your liability so how sustainable is that? These are some of my questions.

Sanjiv Vasudeva: I will try to take the first two questions that you mentioned and later Sanjeev Madan will take you through the questions related to the capital, trade payables, etc. First of all, the market perspective as you know we have sales in the automotive segment, household electronics, also we are in the segments like toy, sports, and leisure etc. The market itself seems pretty weak you know as evident in our volumes we have a decline of volumes versus the previous years as you would have seen in our numbers. As you may have seen the SIAM data automotive numbers are still pretty weak even in the month of October and in Diwali period as well not just for auto even household segments all have not really picked up to the level where we all expected. The whole country was wishing that we have a very good Diwali and things may turnaround. My take on this is this may take a few quarters to sort out, again I cannot give you any forecast numbers as to where we think we will end but I do not think the worst is over. I think we will have a similar kind of performance level for at least a quarter or 2 because we do not see any line of sight to anything dramatic happening in the industry. Second on the low margin, margins are predominately tied to prices that you get for our finished goods and the prices of the raw material and you know depending on the whole chain right from crude oil till the chemicals the price differences between the different kind of products that delta keeps changing. For example,

polystyrene earlier part of the year enjoyed very good delta margin so you would have seen in the January to March quarter earlier this year polystyrene had margins of \$200 and above and certainly these margins have got squeezed to \$50, \$60, \$70, \$80 so there is not much you can do, I think we can do a bit more of product mix up and specification work but it is predominately related to the nature of the product. In ABS we have seen a similar kind of effect. These are all cyclical businesses, there are years where you have very good margin and this has been a relatively lower margin kind of year for ABS especially the last quarter we have seen the margin getting squeezed dramatically. To be honest with you even our January to March was very similar, January'2019 to March'2019 again the margin was very low and its kind of expanded a bit we are hoping it to expand further which has not happened. A lot of it is driven by the supply demand of things likes styrene and ABS not just in India but the completely global market as to what happens in China and globally. There is also exchange related fluctuations, which affects the imports and thereby affecting the margins. There are months and quarters where you see high imports for polystyrene from Iran in particular and then you have high imports from companies like SABIC, Saudi Arabia for ABS. So, they kind of put pressure on your margins and because you have to drop price to kind of maintain your market share or to maintain your customer base so those factors would play a role here. I would let Sanjeev take the next couple of questions.

Sridhar Parthasarthy: Before that just wanted to clarify Sir. Effectively, what we are saying is the volumes are dropping and that is dropping pretty much steep right now, almost a 20% drop compared to the last quarter so I do not know whether this is going to be the same going forward, so what we are seeing is the volumes are dropping, the pricing is also under bit of a pressure which is also getting reflected in the margins at this point of time in terms of the low margin, but one question which I wanted to understand or rather get a little more insight is generally there is at least the whole world is talking about making chemicals in India is becoming somewhat increasing, there are companies that are doing very well in those segments and they keep talking about China getting out of some of these products and stuff like that so what about exports and is there any light which you could see because like what you said if this is going to be continuing this way the next couple of quarters is going to be bad so the question is what is management's intervention going to be are you looking at something on the export side, etc. that will give us insights?

Sanjiv Vasudeva: First of all, to clarify on the volumes comment that you made, our volumes are 4% down versus last year and our volumes are 2% up versus the previous quarter. So, when I say volumes are down it is versus last year when I made the comment of in general volumes are down it is relative to what is happening in the industry as well. Automotive has gone down to 15% to 20% does not necessarily mean that our volume has also gone by 20%. So we do try to maintain our share by even selling low margin material at times which is caused because you have imports so you need to compete with them. We also had a plastic ban which has affected a bit of polystyrene sales of the last quarter. As you know the 15th of August our Honorable Prime Minister announced the intention to have a plastic ban which took a different form when it came to 2nd of October but having said that that also caused a lot of panic in the market. Directionally, it is a good thing for the country but it has to be done in a proper way and you know plastic producers are not the only ones who have the answer to this but recycling, reusing and having the right kind of

infrastructure are the other things the country needs to do so market to me yes it is down versus last year, our volumes will probably 5% to 10% down versus last year at the best, but I do not see a very big recovery coming in the foreseeable couple of quarters.

Talking about chemical making and what we can do, China is the hub of everything. To be honest China is the manufacturing hub for most of the products not just chemicals but all the other electronics and all so somewhere India is lagging behind here okay not just in the chemical industry but other industries as well. Having said that are we looking for exports? Not really. For ABS, India as a country is a net importer of ABS. We have two players in India, us and a local competitor and both of us put together our share position is like 70% at the best so there is 30% demand of 70000 to 80000 tons which has to be catered through imports so the question of us exporting does not arise until and unless we get better margins in some specific neighboring countries or some other region. We do have our own manufacturing facilities in South East Asia, Korea, China and Europe which caters to the other markets. So, there is also no need for us to export some of these materials because our customers are supplied through our sister companies.

We do know that some of our competitors export, for example, Supreme exports some polystyrene but Supreme has a different portfolio than us they have much wider portfolio so it is not apple to apple comparison. I could say the chemical industries like I said to answer your question about the chemical making is getting difficult, yes it is difficult you know just like other industries so we all expect the government to support the industries with measures like reducing the corporate tax was one good measure the government has done but you know ease of doing business and supporting the business is to make investments for the future would be another area where the government help.

Sanjeev Madan: Regarding your question related to the capital work in progress primarily this is related to the Moxi 100.

Sridhar Parthasarthy: Just on the point to specialties for example if I look at September 30, 2018 versus September 30, 2019 it is down from 439 Crores to 330 Crores if you are saying volumes are dropped by 2% or 3% then you are talking about a substantial reduction in prices that is the reason why the volumes are low is there something which I could read from that? I was saying the specialties have dropped from 439 Crores to 330 Crores and somewhere I heard that the volume drop was some 2% to 4% does it mean that there is a price reduction to that extent, whatever we are seeing the gap?

Sanjiv Vasudeva: Yes, a lot of these things are tied with the raw material prices so you are correct the prices of styrene and of ABS has gone down over a period of last quarter in fact has been going down over the period of last six months. Sridhar, did you catch because I think there was some issue with the telephone did you get an answer to your previous questions?

Sridhar Parthasarthy: Sir, the only question which so far addresses is the outlook of the business and business why the margins are low, some of the finance related questions I thought somebody is going to advice.

Sanjiv Vasudeva: We were because I think there was some issue with the recording so we can repeat and give you those answers.

Sanjeev Madan: Okay I will repeat it again capital work in progress what you are seeing in the balance sheet is majorly pertains to our project of Moxi 100 which is going on related to the compounding expansion plan which is coming live in December 2019 so most of it is related to that. Right of use of assets and liabilities are related to the Indian Accounting Standard 116 leases which is effective from the April 1, 2019, if you recall last quarter we have given the notes like we have already adopted the accounting standard 116 and now it is getting reflected in the balance sheet as well September 30, 2019, both the right of use of assets and liabilities.

Regarding the last question of trade payables basically we had purchased certain raw material and feedstock at the month end related that this amount is a bit higher and will get paid in the future. I mean that is helping little bit working capital over here. I hope I have answered your all questions now.

Sridhar Parthasarthy: Only thing is it going to be sustainable because if it is a one-time process because you have actually used that money to pay fair bit of your long term borrowing almost like 80 Crores reduction in borrowing so I was wondering there is something which is sustained or you are again to look at increasing the borrowing.

Sanjeev Madan: Yes, it is quite sustainable because if you see the working capital last quarter as well as in this quarter is quite manageable and trade payables is also in the similar range it is not going too much high or too much low I will say. There are certain onetime purchases which is at the quarter end but its ongoing process. So, it is all sustainable, this is what I can say.

Sridhar Parthasarthy: Since you mentioned about this new project of Moxi 100 what is the outlook for that product, is it also a kind of how different is that product or are we going to see a similar situation there or that will be different?

Sanjiv Vasudeva: Moxi is a location where our plant is and Moxi 100 stands for expansion of our plant's capacity that expansion will be on stream from December.

Moderator: Thank you very much. The next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.

Arjun Sengar: Good evening Sir. Just wanted to ask you what is the update on your delisting plans?

Sanjiv Vasudeva: As such as you know, the promoters proposal for delisting has been approved by the board and by the shareholders of the company and as we understand that the delisting process involves all the applicable SEBI regulations and all and it is going through that and for now we do not have any further update. The whole process is ongoing and generally this process will take another few months so as and when we have a update you will come to know.

- Abhijaat Sinha:** Anyway, it will be up on the stock exchanges, as and when we announce the next step, whatever announcement has to be made in terms of SEBI guidelines it will be notified through the stock exchanges and the relevant requirement, public announcement or whatever the next step.
- Arjun Sengar:** Versus our domestic competitors, how is their market share panning out?
- Sanjiv Vasudeva:** We hold a higher market share than our domestic competitor in ABS while in polystyrene it is other way our domestic competitor has the high share and we are maintaining our share.
- Arjun Sengar:** Okay, and in terms of dumping of ABS I think you are trying to get an antidumping duty, right?
- Sanjiv Vasudeva:** That was polystyrene, not ABS. That was lower cost imports from few countries Iran in particular and we are working with the DGFT and our application has been submitted. This is a long process which typically takes about a year or so and then so we are going through the whole process.
- Arjun Sengar:** When was last time this kind of dumping was happening in polystyrene and have we made this kind of requests in the past also?
- Sanjiv Vasudeva:** No, I do not think so my understanding back in 2011 some initiative was done and I think in PVC it has been done earlier but I mean a public notice are there by the DGFT and honestly, I will have to go through the notification and all to know who did what but polystyrene nothing like this happened. We never had this level of imports earlier and very cheap low-cost imports which are hurting the industry.
- Arjun Sengar:** In this polystyrene previously, you mentioned there was an impact because of plastic ban intentions previously so what kind of products are these that are made out of polystyrene that can be subject to this kind of regulations and what percentage of your portfolio will that form.
- Sanjiv Vasudeva:** Things like cups, forks in airlines catering all. These are typical, what we call as the packaging, kind of products, which are going to get affected and about 10% to 15% kind of polystyrene sales goes in this segment so that is what would be affected by this ban.
- Arjun Sengar:** In ABS are there any major new products or applications that are in the pipeline or this new application are still quite small relative to our existing product mix?
- Sanjiv Vasudeva:** We continue to work on new application being a multinational company we have global R&D who keep coming up in the next generation of products e.g. primer free, We have a broader product portfolio, so we have ABS, we have ASA, we have SMMA, so we have multiple different kind of products, so they are different polymers, they are not ABS, the whole chemistry is different of the polymer so we have a broader product portfolio but within ABS we have multiple grades where we keep coming up with new kind of products.
- Arjun Sengar:** But we would not be looking to venture into this new kind of polymers?

Sanjiv Vasudeva: Some of them we do make in India. We have started making some of them in India and as and when the volume grows we will keep adding capacities on those.

Arjun Sengar: One last question, in electrical vehicles how much incremental usage is there of our product, is it may be 1.2x or how would you or does it not change anything at all?

Sanjiv Vasudeva: I would look at the other way if you look at electric vehicle maybe the design changes a bit more right so where does our product go? Our product goes in the front grills, in front of your car right, it goes in the side mirror, new generation designs if you are were to start kind of a fan of fancy cars and all you would say the design can be very sleek, it may not have you may have a just a panel in your car and you may not have side mirror. So, things like those design changes can have adverse effect on our products as of now we do not see a very high impact based on the EV. There may be somewhat may be affected predominantly under the hood applications which require high heat and all, and our ABS products does not go under the hood application that is more PBT, nylon and other materials so we expect some kind of impact because the design changes but not major one because you still need interiors in the car, you still need lights, etc.

Arjun Sengar: Sir when will this project get commissioned, our Moxi plant?

Sanjiv Vasudeva: We are looking at start of next month.

Arjun Sengar: Thank you. That is it from my side.

Moderator: Thank you very much. As there are no further questions, I would now like to hand the floor over to the Mr. Abhijaat Sinha for closing comments. Over to you Sir!

Abhijaat Sinha: Thanks for joining the call and showing your interest and we value your participation and will be glad to hear you next time when we have the next earnings call. Thank you and have a nice day.

Moderator: Thank you very much. Ladies and gentlemen that concludes this conference. Thank you for joining. You may now disconnect your lines now.