

No. CARE/ARO/RR/2019-20/1394

Mr Sanjiv Vasudeva

Managing Director and CEO

Ineos Styrolution India Ltd.

5th Floor, Ohm House - II

Ohm Business Park, Subhanpura

Vadodara - 390023

December 17, 2019

Confidential

Dear Sir,

Credit Rating for Bank Facilities of Rs.177.40 crore

Please refer to our letter dated December 06, 2019 on the above subject.

2. The rationale for the rating is attached at **Annexure – I**
3. We request you to peruse the annexed documents and offer your comments, if any. We are doing this as a matter of courtesy to our client and with a view to ensure that no factual inaccuracies have inadvertently crept in. Kindly revert as early as possible. **In any case, if we do not hear from you by December 19, 2019, we will proceed on the basis that you have no comments to offer.**

If you have any further clarifications, you are welcome to approach us.

Thanking you,
Yours faithfully,



[Hardik Shah]
Associate Director

Encl.: As above

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

Annexure
Rating Rationale

Ineos Styrolution India Limited

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term/Short-term Bank Facilities	177.40	CARE A+; Stable / CARE A1+ [Single A Plus; Outlook: Stable/ A One Plus]	Revised from CARE AA-; Stable / CARE A1+ [Double A Minus; Outlook: Stable / A One Plus]
Total	177.40 (Rupees One hundred seventy seven crore and forty lakh only)		

Details of facilities in Annexure – 1 & 3

Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Ineos Styrolution India Limited (SIL) is on account of de-growth in its scale of operations during H1FY20 (refers to the period April 1 to September 30) along with continued subdued profitability due to sustained slowdown in demand from the automobile industry (a key end-user), competition from cheaper imports (especially from South East-Asian countries) and higher cost of production due to inordinate delay in alleviating its capacity constraint for manufacturing of HRG rubber which is a key intermediate product.

The ratings, however, continue to draw comfort from the established and long track record of SIL with its leadership position in the Indian Acrylonitrile Butadiene Styrene (ABS) & Styrene Acrylonitrile (SAN) co-polymer markets with focus on customized specialty products, diversified clientele, steady demand prospects from end-user industries such as consumer durables and refrigeration liners. The ratings also take into account the established position of the promoter group of SIL in the styrene based polymer business globally, its state-of-the-art manufacturing facilities, established arrangement for procurement of key raw materials along with its comfortable leverage and adequate liquidity indicators.

However, the above rating strengths continue to be constrained by susceptibility of SIL's moderate profitability to volatile raw material prices as they are derivatives of crude oil, foreign currency

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

December 17, 2019

Page 2 of 10



CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

exchange rate fluctuations associated with imported raw materials and inherently low profit margin of its polystyrene business.

Rating Sensitivities

Positive Factors

- Improvement in profitability margins marked by PBILDT margin above 15% on a sustained basis
- Improvement in ROCE to more than 15% on a sustained basis
- Timely enhancement of the capacity for manufacturing HRG rubber so as to improve its operating profitability
- More than 80% utilization of expanded capacity of ABS & SAN on a sustained basis
- Improvement in demand prospects from the auto industry

Negative Factors

- Decline in profitability margins marked by PBILDT margin of less than 5% on a sustained basis
- Deterioration in capital structure marked by overall gearing beyond 0.75 times.
- Decline in scale of operations marked by TOI lower than Rs.1,500 crore on a sustained basis

Detailed description of the key rating drivers

Synergies of global collaboration with its parent which is a leading player in styrene business

SIL is owned by Ineos group [through 75% stake of Ineos Styrolution APAC Pte Ltd. (SSG), Singapore]. SSG holds leading position in styrenic products such as styrene monomer (SM), polystyrene (PS), styrene-butadiene block co-polymers (SBC), other styrene-based co-polymers (ABS, SAN, etc.) and co-polymer blends. SIL has benefitted from access to technology by virtue of it being a part of the Ineos group. Moreover, it also helps SIL to compete effectively against large scale producers from South – East Asian countries. Board of Directors including Independent Directors of SIL is competent marked by experienced professionals including nominees from Ineos group.

Market leader in ABS and SAN business in India which has diversified application

SIL manufactures various grades of ABS under the brand name 'Absolac', 'Novodur' and 'Luran', and SAN under the brand name 'Absolan' and has been a pioneer in this field and continues to remain the market leader in both these product segments in India. ABS and SAN are versatile engineering thermoplastic material and their high-impact, ignition-resistant and other properties meet the application needs across a broad range of market segments. ABS finds application across industries such as electrical and electronics, automotive, household consumer durables, information technology, business machines, etc. and SAN is mostly used in the stationery, novelties, cosmetic, packaging, toys and extrusion segments.

December 17, 2019

Page 3 of 10



CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

Diversified and reputed clientele

SIL caters to the ABS requirements of leading automobile manufacturers in India on contractual basis. It benefits from its presence in the specialty grade of ABS where it faces relatively lower competition from imports; albeit this demand has experienced moderation since H2FY19 due to slowdown in demand from the domestic automotive industry. Apart from automobile, SIL also caters to the demand from household consumer durable application and other commodity grades of ABS which in turn results in large and diversified customer base.

State-of-the-art manufacturing facilities generally operating at comfortable capacity utilization levels; albeit some moderation in capacity utilization during last one year

SIL has modern manufacturing facilities and a state-of-the-art R&D center located in Gujarat. SIL has an installed capacity of 80,000 MTPA of ABS, 100,000 MTPA of SAN and 78,000 MTPA of Polystyrene as on March 31, 2019. Capacity utilization of ABS, though moderated due to slowdown in demand from the auto sector, stood comfortable. Captive consumption of SAN in the manufacturing of ABS has remained stable during FY19 (refers to the period April 1 to March 31). SIL has an ongoing project to expand its ABS compounding capacity by 34,000 MTPA at its Moxi plant at a tentative cost of Rs.130 crore funded through borrowing from Ineos group to the tune of Rs.100 crore and balance from internal accruals. The project has been delayed by around six months from its initial estimate and is now expected to be commissioned from December 15, 2019. Post commissioning of the plant, SIL's reliance on job-work is expected to reduce.

Comfortable leverage; albeit some moderation

In order to undertake capacity expansion of ABS, SIL has drawn term loan of Rs.100 crore due to which capital structure of SIL moderated but it continued to remain comfortable marked by an overall gearing of 0.43 times as on March 31, 2019 as against 0.16 times as on March 31, 2018.

Liquidity: Adequate

SIL has sanctioned working capital limits of Rs.502.40 crore (including inter-changeability with non-fund based limits) whereby utilisation remained comfortable at around 34% for the trailing 12 months ended October 2019 indicating unutilized bank lines to be adequate for meeting its incremental working capital needs over the next one year. Inventory level of SIL which had increased to Rs.413 crore as on September 30, 2018 has declined to a level of Rs.310 crore as on September 30, 2019. Correspondingly, the working capital borrowings, has also declined over the same period. With an overall gearing of 0.43 times as of March 31, 2019, the issuer has sufficient gearing headroom, to raise additional debt. Also, it has large amount of CENVAT/GST credit receivable pertaining to Polystyrene

December 17, 2019

Page 4 of 10

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

business and recently concluded capex at Moxi. SIL's current ratio stood comfortable at 1.74 times with available free cash & cash equivalent of Rs.21 crore as on September 30, 2019.

Moderate profitability and substantial decline in return on capital employed due to demand slowdown from the auto industry, HRG rubber capacity bottleneck and thin profitability in polystyrene business

Total Operating Income (TOI) of SIL grew by about 11% during FY19 mainly on the back of steady increase in sales volume of ABS. SIL reported net loss of Rs.12.47 crore during FY19 mainly due to bottleneck in intermediate product HRG Rubber and subdued demand from the auto industry which contributed 40-50% of sales of SIL. Furthermore, prices of styrene which is one of the key raw materials fell sharply, resulting in significant inventory losses in H2FY19 as SIL carried large amount of inventory of Styrene. ABS comprises of Styrene (65%, imported), Butadiene (20%, sourced from domestic supply) and Acrylonitrile (15%, imported). For manufacturing ABS, Butadiene is required to be converted into intermediate product called HRG rubber before it's blending with SAN. However, SIL has faced capacity constrain for manufacturing its intermediate product HRG rubber and hence with increase in sales volume of ABS, direct import of costlier HRG rubber has increased which in turn has increased overall cost of production for SIL. Moreover, SIL's profitability is also constrained due to increase in job work of finished products and limited pricing flexibility on account of increase in competition from imports and its strive for maintaining market share and customer retention. Nevertheless, envisaged completion of capex of ABS is expected to reduce reliance on job work and improve its profitability. SIL has also conducted engineering study for expanding its HRG rubber capacity to address capacity constrain. However, there is no concrete development to take up this capex which is unlikely to alleviate the capacity constraint in HRG rubber in short-term and likely to keep its profitability margin under pressure.

SIL also manufactures General Purpose Polystyrene (PS) and High Impact Polystyrene (HIPS). The performance of this segment, too, deteriorated significantly with losses at PBIT level of Rs.26.39 crore in FY19 and marginal profit of Rs.4.91 crore during H1FY20. On a cumulative basis, since the merger of Polystyrene division in SIL, the division has reported loss of Rs.0.20 crore against TOI of Rs.2,307 crore indicating an unprofitable merger. Polystyrene product being commodity in nature which coupled with higher imports at competitive prices have led to this subdued performance.

On the back of subdued performance of both its specialty (ABS) & Polystyrene divisions, profitability of SIL has significantly moderated marked by PBILDT margin of 0.94% during FY19 vis-à-vis 7.45% during FY18 and net losses of 0.59% during FY19 vis-à-vis PAT margin of 3.49% during FY18. Furthermore, due to continued slowdown in the auto segment and household appliance segment, SIL has reported decline in TOI by 25% during H1FY20 to Rs.883.96 crore, due to which PBILDT of SIL has declined by 20% to Rs.42.79 crore during H1FY20 from Rs.53.64 crore during H1FY19. Also, the PBILDT margin stood at 4.84% during H1FY20 which continues to be on a much lower side compared with the years

December 17, 2019

Page 5 of 10



CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015

Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

prior to FY19. On account of lower profitability, SIL's return on capital employed which used to be at 14.70% during FY18 reduced to -0.54% during FY19 and is likely to remain at a lower level in FY20.

Volatility associated with crude prices and foreign exchange rate fluctuations

Acrylonitrile, Butadiene and Styrene are the three major raw materials used in the manufacturing of ABS, SAN and Polystyrene and all of these are derivatives of crude and subject to the risk of volatility in global crude prices. Prices of Styrene declined sharply by around 35% during August 2018 to November 2018 which resulted in major inventory losses in H2FY19. Raw material import has generally constituted 90% of its total raw material requirement. Since SIL has negligible export earnings, it is exposed to foreign exchange rate fluctuations on its imports. However, formula based pricing mechanism (mainly in contractual sales arrangement) wherein sales prices are revised on a periodic basis depending upon movement in raw material prices and foreign exchange rates protect the profitability of SIL to an extent. SIL uses various foreign currency facilities available to it for import of raw materials. As articulated by the company management, SIL has a dynamic hedging policy where it hedges its foreign currency exposure through forward contract. Also, upon rupee depreciation, prices of substitutes of SIL, which are largely imported products, also rise which help the company to pass on increased cost to its customers.

Moderation in debt coverage indicators

As SIL reported losses during FY19, Total debt/ GCA and interest coverage ratio deteriorated to 31.81 times and 1.38 times respectively during FY19 as against 1.19 times and 10.29 times respectively during FY18. During H1FY20, though there is some improvement in its debt coverage indicators, they stood moderate marked by interest coverage and Total debt/GCA of 6.05 times and 3.20 times respectively during H1FY20 unlike earlier healthy levels prior to FY19.

Threat of competitive imports from South-East Asian countries; albeit partly offset by growing domestic demand and leadership position of SIL with focus on specialized ABS

With predominantly only two domestic players in ABS and SAN industry, SIL is a market leader in India for total domestic demand of around 2,68,000 MT of ABS during FY19 out of which around 45% of demand was catered through imports. Domestic demand of ABS has grown at healthy compounded annual growth rate (CAGR) of 10% during FY10-FY19. Nevertheless, majority of the increased demand has been catered from imports as witnessed by growth in imports at CAGR of 16% during the corresponding period. South Korea, Thailand, Malaysia and Taiwan together account for large share of imports of ABS in India. During FY19, import of ABS in India has increased substantially despite depreciation of rupee against USD. This has also resulted in squeezing of profitability of manufacturers during FY19 as well as during H1FY20. Proportion of specialty grade ABS is around 75-80% in aggregate sales of ABS and SAN by SIL which provide it with some competitive edge over imports. However, there

December 17, 2019

Page 6 of 10

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

is a slow-down in demand from the auto segment which has impacted the profitability of SIL as it had earlier fetched better margins from that segment. Furthermore, in polystyrene segment, SIL has faced competition in the form of higher imports from Middle Eastern countries (like Iran) at competitive price which led to its subdued performance during FY19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

CARE's methodology for manufacturing companies

Financial ratios - Non- Financial Sector

About the Company

Ineos Styrolution India Limited (SIL, erstwhile Styrolution ABS (India) Ltd. (SAI)), the Gujarat-based ABS, SAN and polystyrene manufacturer was originally incorporated as 'ABS Plastics Ltd' on December 7, 1973. Subsequently, there have been several changes of hands in the ownership of the company amongst various international chemical groups. Currently, INEOS Group through its step down subsidiary viz. Ineos Styrolution APAC Pte Ltd. holds 75% equity stake in SIL with balance 25% being held by the public. ABS, SAN and polystyrene have diversified end applications.

Financial Performance

	<i>(Rs. Cr)</i>		
<i>For the period ended / as at March 31,</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
<u>Working Results</u>			
Net Sales	1,482	1,895	2,088
Total Operating income	1,484	1,900	2,101
PBILDT	131	142	20
Interest	8	14	18
Depreciation	25	25	27
PBT	100	103	(18)
PAT	69	66	(12)
Gross Cash Accruals	89	89	8
<u>Financial Position</u>			
Equity Share Capital	18	18	18
Net-worth	587	645	623
Total capital employed	818	768	900
<u>Key Ratios</u>			

December 17, 2019

Page 7 of 10

CARE Ratings Limited
(Formerly known as Credit Analysis & Research Limited)

<i>For the period ended / as at March 31,</i>	<i>2017</i>	<i>2018</i>	<i>2019</i>
	<i>(12m, A)</i>	<i>(12m, A)</i>	<i>(12m, A)</i>
<i>Growth</i>			
Growth in Total income (%)	-	28.02	10.59
Growth in PAT (%)	8.99	(3.79)	NM
<i>Profitability</i>			
PBILDT/Total Op. income (%)	8.81	7.45	0.94
PAT / Total income (%)	4.64	3.49	(0.59)
ROCE (%)	14.11	14.70	(0.54)
<i>Solvency</i>			
Debt Equity ratio (times)	0.00	0.04	0.16
Overall gearing ratio(times)	0.36	0.16	0.43
Interest coverage(times)	16.56	10.35	1.38
Term debt/Gross cash accruals (years)	0.00	0.26	11.85
Total debt/Gross cash accruals (years)	2.34	1.19	31.80
<i>Liquidity</i>			
Current ratio (times)	1.78	1.88	1.74
Quick ratio (times)	1.05	1.03	0.91
<i>Turnover</i>			
Average collection period (days)	49	44	41
Average inventory period (days)	70	65	54
Average creditors period (days)	43	43	38
Operating cycle (days)	76	66	58

A: Audited; NM: Not Meaningful

As per the published financial results for H1FY20, SIL has reported TOI of Rs.883.96 crore (H1FY19: Rs.1,171.31 crore) with PAT of Rs.19.01 crore (H1FY19 : Rs.23.86 crore).

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Please refer **Annexure-2**

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

Contact us

Media Contact

Name: Mradul Mishra

Contact no. : +91-22-6837 4424

Email ID – mradul.mishra@careratings.com

Analyst Contact

December 17, 2019

Page 8 of 10



CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)

32, Titanium, Prahaladnagar Corporate Road, Satellite, Ahmedabad - 380 015

Tel: +91-79-4026 5656 • Fax: +91-79-4026 5657 • Email: care@careratings.com • www.careratings.com • CIN-L67190MH1993PLC071691

Name: Hardik Shah
 Contact Number: +91-79-4026 5620
 Email ID- hardik.shah@careratings.com

Business Development Contact

Name: Deepak Prajapati
 Contact no. +91-79-4026 5656
 Email ID - deepak.prajapati@careratings.com

(This follows our brief rationale for the entity published on December 11, 2019)

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

Annexures

Annexure - 1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST	-	-	-	177.40	CARE A+; Stable / CARE A1+

Annexure - 2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in	Date(s) & Rating(s) assigned in

December 17, 2019

Page 9 of 10



CARE Ratings Limited
 (Formerly known as Credit Analysis & Research Limited)

					2019-2020	2018-2019	2017-2018	2016-2017
1.	Fund-based - LT-Cash Credit	LT	-	-	-	-	1)Withdrawn (11-Apr-17)	1)CARE AA+ (20-Oct-16)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	-	-	-	-	1)Withdrawn (11-Apr-17)	1)CARE AA+ / CARE A1+ (20-Oct-16)
3.	Commercial Paper	ST	-	-	-	1)Withdrawn (27-Nov-18)	1)CARE A1+ (14-Nov-17) 2)CARE A1+ (11-Apr-17)	-
4.	Fund-based/Non-fund-based-LT/ST	LT/ST	177.40	CARE A+; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (24-May-19)	1)CARE AA; Stable / CARE A1+ (04-Dec-18)	1)CARE AA+; Stable / CARE A1+ (14-Nov-17) 2)CARE AA+; Stable / CARE A1+ (11-Apr-17)	-

Annexure 3: Details of Rated Facilities

1. Long-term / Short-term bank facilities

1. A. Sanctioned Fund-based Limits

(Rs. Cr)

Sr. No.	Name of lender	CC*
1	ICICI Bank Ltd.	177.40

*CC: Cash Credit; Sublimit of Working Capital Demand Loan, FCNR, Buyer's Credit and Letter of Credit

Total Long-term / Short-term facilities – Rs.177.40 crore

December 17, 2019

Page 10 of 10



CARE Ratings Limited

(Formerly known as Credit Analysis & Research Limited)