CARE/ARO/RL/2019-20/1140

Mr. Sanjiv Vasudeva
Managing Director and CEO
Ineos Styrolution India Ltd.
5th Floor, Ohm House - II
Ohm Business Park, Subhanpura
Vadodara - 390023

May 21, 2019

Confidential

Dear Sir,

Credit rating for bank facilities of Ineos Styrolution India Ltd.

On the basis of recent developments including operational and financial performance of your company for *provisional* FY19 (refers to the period from April 1 to March 31), our Rating Committee has reviewed the following ratings:

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

2. Refer **Annexure 1** for details of rated facilities.
3. The rationale for the rating will be communicated to you separately. A write-up (press release) on the above rating is proposed to be issued to the press shortly, a draft of which is enclosed for your perusal as **Annexure-2**. We request you to peruse the annexed document and offer your comments if any. We are doing this as a matter of courtesy to our clients 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 May 23, 2019, we will proceed on the basis that you have no comments to offer.**

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

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4. CARE reserves the right to undertake a surveillance/review of the rating from time to time, based on circumstances warranting such review, subject to at least one such review/surveillance every year.
5. CARE reserves the right to revise/reaffirm/withdraw the rating assigned as also revise the outlook, as a result of periodic review/surveillance, based on any event or information which in the opinion of CARE warrants such an action. In the event of failure on the part of the entity to furnish such information, material or clarifications as may be required by CARE so as to enable it to carry out continuous monitoring of the rating of the bank facilities, CARE shall carry out the review on the basis of best available information throughout the life time of such bank facilities. In such cases the credit rating symbol shall be accompanied by "ISSUER NOT COOPERATING". CARE shall also be entitled to publicize/disseminate all the afore-mentioned rating actions in any manner considered appropriate by it, without reference to you.
6. CARE ratings do not take into account the sovereign risk, if any, attached to the foreign currency loans, and the ratings are applicable only to the rupee equivalent of these loans.
7. Users of this rating may kindly refer our website www.careratings.com for latest update on the outstanding rating.
8. CARE ratings are **not** recommendations to sanction, renew, disburse or recall the concerned bank facilities.

If you need any clarification, you are welcome to approach us in this regard.

Thanking you,
Yours faithfully,

Sushant Singh
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Encl.: As above

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. 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.
In case of partnership/proprietary concerns, the rating/outlook assigned by CARE is 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.

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Annexure 1

Details of Rated Facilities

1. Long-term / Short-term 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

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Annexure 2

Press Release
Ineos Styrolution India Limited

Ratings

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

Details of facilities in Annexure - 1

Detailed Rationale & Key Rating Drivers

The revision in ratings assigned to the bank facilities of Ineos Styrolution India Limited (SIL) is on account of significantly higher than previously expected moderation in its profitability during H2FY19 (refers to the period Oct 1 to March 31). SIL reported negative PBILDT during H2FY19 on the back of sharp fall in the prices of Styrene (one of the key crude oil-based raw materials which it imports) during the same period which resulted in inventory loss, increasing competition encountered in its major products from imports, fall in the market prices of ABS (Acrylonitrile-Butadiene-Styrene) due to slowdown in demand from the automotive segment (its key end-user industry) and increase in cost of production due to capacity constraint in its HRG rubber manufacturing facility which is a key intermediate product. Further, continued subdued performance in its polystyrene business has also resulted in moderation in SIL's overall profitability (PBILDT margin). The ratings, however, take in to cognizance the on-going capacity expansion in ABS segment which upon its completion is expected to reduce reliance on job work.

The ratings, however, continue to draw comfort from the established and long track record of SIL with its leadership position in the Indian ABS & Styrene Acrylonitrile (SAN) co-polymer markets with focus on customized specialty products, well 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 comfortable leverage and 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 exchange rate fluctuations associated with imported raw materials, inherent low profit margin of its polystyrene business, moderation in demand from automotive industry and intense competition from imports (especially from South East-Asian countries).

SIL's ability to execute the planned ABS capacity expansion without any inordinate delay and generate envisaged benefits thereof, alleviate the capacity constraint in HRG rubber manufacturing, significantly improve its profitability and debt coverage indicators while efficiently managing its working capital requirements and maintaining its comfortable leverage and liquidity indicators shall be the key rating sensitivities. Improvement in demand from automotive end-user segment would also be a key rating monitorable.

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Detailed description of the key rating drivers
Key Rating Strengths

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.

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 experienced moderation during H2FY19 due to slowdown in demand from domestic automotive industry. Apart from automobile, SIL also caters to demand in 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 H2FY19

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 although remained comfortable during FY19, it moderated during H2FY19 on account of slow down in demand from automotive segment. Captive consumption of SAN in the manufacturing of ABS has remained stable during FY19. 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 to be funded through internal accruals and/or borrowing from Ineos group. The project is now estimated to be completed by end of CY19.

Comfortable leverage

Capital structure of SIL although remained comfortable with low overall gearing of 0.41 times as on March 31, 2019, it has moderated from 0.16 times as on March 31, 2018.

Liquidity

Inventory levels of SIL had increased from Rs.299.90 crore as on March 31, 2018 to Rs.413.27 crore as on September 30, 2018 leading to higher working capital intensity. Also, it has large CENVAT receivables pertaining to its Polystyrene business. However, SIL has gradually liquidated inventory levels as reflected from inventory of Rs.315.48 crore as on March 31, 2019. Working capital borrowing had also correspondingly increased from Rs.80.93 crore as on March 31, 2018 to Rs.138.92 crore as on September 30, 2018 and Rs.257.80 crore on December 31, 2018; although it declined to Rs.163.46 crore on March 31, 2019 on account of liquidation of inventory piled up by Q3FY19, it continued to remain high due to lower than envisaged cash accruals and decline in

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trade payables. Utilization of its working capital limit also stood comfortable at around 32% of its available limit (which is Rs.502.40 crore) by end of March 2019. Further, its current ratio stood comfortable at 1.74 times with available free cash & cash equivalent of Rs.45 crore as on March 31, 2019 and its operating cycle stood comfortable at 56 days during FY19 (Prov.).

Key Rating Weaknesses

Significant moderation in profitability during H2FY19

Total Operating Income (TOI) of SIL grew by ~7% during FY19 (refers to the period from April 1 to March 31) mainly on the back of steady increase in sales volume of ABS. However, PBIT margins from specialty (ABS) division declined sharply from 8.01% during FY18 to 1.79% during FY19 (Prov.) on account of major inventory losses during H2FY19 upon sharp correction in prices of 'Styrene' which is one of the key raw materials for manufacturing of ABS. 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 is also conducting engineering study for expanding its HRG rubber capacity to address capacity constrain.

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 (Prov.) compared to marginal PBIT of Rs.4.23 crore in FY18. Polystyrene product being commodity in nature which coupled with higher imports at competitive prices have led to this subdued performance. Also, ban on plastic in state of Maharashtra has also impacted the performance of this division.

On the back of subdued performance of both its specialty (ABS) & Polystyrene divisions, profitability of SIL has significantly moderated marked by PBILDT margin of 1% during FY19 vis-à-vis 7.45% during FY18 and net losses of 0.61% during FY19 vis-à-vis PAT margin of 3.37% during FY18 which is a much higher than previously expected moderation in profitability of SIL.

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 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. 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

SIL's PBILDT interest coverage moderated from 10.35 times during FY18 to 1.67 times during FY19. Its Total Debt/GCA which was comfortable at 1.19 times during FY18 has also moderated to 37.72 times during FY19.

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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 2,47,000 MT of ABS during FY18 out of which around 40% of demand was catered through imports. South Korea, Thailand, Malaysia and Taiwan together account for large share of imports of ABS in India. During 11MFY19 (April 1 to February 28), imports 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. However, proportion of specialty grade ABS is around 55-60% in aggregate sales of ABS and SAN by SIL which provide it with some competitive edge over imports. Furthermore, domestic demand of ABS has grown at a higher compounded annual growth rate (CAGR) of 10% during FY10-FY18 as against CAGR of GDP growth of 6% during corresponding period. However, there are signs of slow-down in demand from auto segment which could impact the profitability of SIL as it 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 has 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
Rating Methodology - 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.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)	FY19 (Prov.)
Total operating income	1483.74	1899.45	2,103.66
PBILDT	130.79	141.53	21.13
PAT / (Net losses)	68.83	66.23	(12.47)
Overall gearing(including LC backed creditors) (times)	0.41	0.16	0.41
Interest coverage (times)	16.56	10.35	1.67

A: Audited; Prov.: Provisional

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.*

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For detailed Rationale Report and subscription information, please contact us at www.careratings.com

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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.

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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 AA-; 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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 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 AA-; Stable / CARE A1+	-	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)	-

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