



“ “INEOS Styrolution India Limited Q1 FY'2021-22 Earnings
Conference Call”

August 13, 2021



**MAIN SPEAKER: MR. SANJIV VASUDEVA – MANAGING DIRECTOR,
INEOS STYROLUTION INDIA LIMITED
MR. SANJEEV MADAN – DIRECTOR (FINANCE), INEOS
STYROLUTION INDIA LIMITED
MS. AMITA MISTRY – LITIGATION & SECRETARIAL
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MR. ABHIJAAT SINHA – COMPANY SECRETARY &
HEAD (LEGAL – INDIA), INEOS STYROLUTION INDIA
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to the Q1 FY'2021-22 Earnings Conference Call of INEOS Styrolution India Limited. We have with us today from the management of INEOS Styrolution India Limited Mr. Sanjiv Vasudeva -- Managing Director; Mr. Sanjeev Madan -- Director, Finance; Ms. Amita Mistry -- Litigation & Secretarial Officer; Mr. Abhijaat Sinha -- Company Secretary and Head, Legal, India.

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 Mr. Sanjeev Madan from INEOS Styrolution India Limited Thank you and over to you, sir.

Sanjeev Madan: Thank you. Good evening, Dear Shareholders, Investors and Analysts Fraternity, We Welcome You to This Earning Call. Your Company, INEOS Styrolution India Limited, has declared its Results for the Quarter-ended June 30, 2021, on 12th August 2021.

We will brief you about the Major Highlights of the Performance regarding Quarterly Performance:

Revenue, net of GST from operations in current quarter is INR45,472 lakhs as compared to INR11,552 lakhs in April to June '20 and INR63,655 lakhs as in previous quarter. Profit before tax in current quarter stands at INR11,843 lakhs as compared to loss of INR3,071 lakhs in April to June '20 and profit of INR21,645 lakhs as in previous quarter.

Now regarding Quarterly Segment Performance, Specialty first:

Profit before interest, tax and other unallocable expenditures stands at INR8,639 lakhs in current quarter as compared to INR70,656 lakhs in the previous quarter.

Polystyrene:

Profit before interest, tax and other unallocable expenditure is INR3,314 lakhs in current quarter as compared to INR4,330 lakhs in previous quarter.

The effects of COVID-19 pandemic continue to be felt with this second wave of infections across the country during the quarter under review, with lockdowns and various restrictions imposed by majority of the state governments, the business of the company was negatively affected due to lower demand of our products.

With the gradual opening of the economy and the onset of the festive season in the second quarter, the Company expects demand to increase across all industries. However, given the uncertain nature and duration of the pandemic, the assessment of its effect will be a continuous

process. The Company continues to closely monitor all economic indicators and will take the appropriate measures to safeguard its business operations.

So this is all about clarifications and details about our financials. Now we can go ahead and ask your queries and clarifications which are needed. Thank you.

Moderator: We will now begin the question-and- answer session. First question is from the line of Nitin Kapoor, an individual investor. Please go ahead.

Nitin Kapoor: Just wanted to know that the company is generating decent amount of cash. What do you propose to do with this cash and what's the estimated amount of capital investments expected in the next couple of years?

Sanjiv Vasudeva: So basically, yes, we have generated a good amount of cash, we are paying back some of the ECB loans that we have taken for expansion of our Moxi plant that's the first and foremost. And then we are in a situation where COVID is still existing. The coming six months are pretty uncertain. And as of now, we will wait and see how things shape up from an economy and COVID point of view, and then going forward will make decisions on CAPEX.

Nitin Kapoor: Secondly, the last time we met, you told that the international prices of ABS were around USD2,300. Now, what's the current international price? And how are the spreads currently?

Sanjiv Vasudeva: So the international prices are around the similar kind of numbers, USD2,300. They went out to, USD2,500 and have kind of come down again to USD2,300 in the last few months, but that's the nature of the business here. The spreads are trading healthy.

Nitin Kapoor: Last time, you were saying that you expect the market to go long sometime this year. Now, do you still hold that view or it has changed in this quarter?

Sanjiv Vasudeva: It will eventually happen. When? We do not know, because these very healthy margins and top of the cycle does not stay forever. So it's difficult for us to predict as to when the change will happen. So as of now, the margins are still healthy.

Moderator: The question is from the line of Abhishek Jain from VC Corporate. Please go ahead.

Abhishek Jain: I've got a few questions. One important thing that in your annual report, you have not mentioned about the volume that we have sold like every time that we provide. Now in this current quarter's presentation, you have provided this data. So all of a sudden, why you have changed this thing?

Sanjiv Vasudeva: Well, we don't think it's necessary for us to provide the volume data, because most companies provide the revenue number and we feel it is appropriate for us to stick to the revenue number only.

Abhishek Jain: In the past that I have seen that our Company doesn't make much profit from the Polystyrene business, but for the last two years, we have been making good amount of profit. So, can you tell me how this will pan out this year or next year, means, is it a sustainable profitability or is it just because of the spread that is happening all of a sudden because of the supply chain issues?

Sanjiv Vasudeva: So we have been making good profit over the last several quarters on Polystyrene and going forward, it's difficult for us to predict how the margins are going to contract, but as of now, the business is in good shape on Polystyrene.

Abhishek Jain: Okay, means at least for the next few quarters the visibility is quite clear? Okay. Another thing is that a few days earlier, there was news that the INEOS International has closed down its German plant citing force majeure in Germany. Can you please tell me? And I was going through the INEOS Styrolution annual report, wherein it is mentioned that this Company doesn't have much of the exposure in Asian countries, so most of the raw material gets imported from the European side. So how this is going to effect the Company per se?

Sanjiv Vasudeva: No, we don't have a big effect from force majeure. Most of our raw materials come from companies in Asia, or in Middle East. Styrene being our one of the key raw materials and Acrylonitrile and Butadiene is locally sourced. So I don't think there is any effect because of force majeure in Europe or Americas.

Abhishek Jain: So basically our raw materials come from the Asia only? And another thing is what are the integration benefits or the product that you are launching from the Korean acquisition that we had made recently, the parent company? And another thing is that, is there any plan to set up this Styrene capacity in India?

Sanjiv Vasudeva: So I'll answer your second question first. Recently there've been announcements by Indian Oil and in the past also by Hindustan Petrochemicals, Reliance also. So they're talking about plants by 2026 or 2028, they are about it, if I remember correctly, 500,000 tons or so. So demand as of today in India is about 800,000 tons for styrene and it's all imported. So we'll wait and see which of these investments really pans out...?

Abhishek Jain: That will take too much time?

Sanjiv Vasudeva: We're talking about five, six years from now. So we have to see how those investments really happen or not. And you had another question about this Korean company' acquisition and the integration, that has been integrated very well with our rest of our organization in Asia Pac. We do source part of the volume from Korea for our local Indian demand. And that business has been recovering very well after the COVID

Moderator: The next question is from the line of Abhijit from Pi Square Investments. Please go ahead.

- Abhijit:** You mentioned that the prices are currently at about USD2,300. So when we say going forward in the next one year, one and a half years what would be the impact?
- Sanjiv Vasudeva:** Very difficult for us to predict like predicting the price of diesel in India...
- Abhijit:** In terms of contracts and everything how do we manage the pricing?
- Sanjiv Vasudeva:** You're talking about the ABS prices, right? Your question was on our end product, right. So at the end, it's all tied to what happens with the price of oil, right, and its derivatives. Of course, it's related, but we don't have direct correlation with the prices which are going to be with the oil and derivative going forward. So we have to just wait and wait and see how it shapes up.
- Abhijit:** Just for my understanding, sir, now suppose if it comes down a bit, so how does that impact, our business with the margin come down accordingly or...?
- Sanjiv Vasudeva:** High prices always good, right, high prices is one part, the second part is the margins, correct, you can have very high prices but if your raw material costs or input costs also very high, your margins are less. So it's not just the price, it's also the price of your basic raw materials and it's tied with some of the derivatives of oil and also to the global supply/demand situation and to the local economy. So there are multiple factors that will effect. It's not that straightforward we can say price today is 500, tomorrow it's going to be 2,000 on 31st December, it's a lot of time but we do know that these are cyclical businesses and we are in a good cycle right now.
- Abhijit:** Sir, you mentioned that you're going to use this cash that we've recently got towards paying off our loans. Would we be using them for dividends as well like higher dividends this year or would it just be used to pay off our loans and how much would that amount be?
- Sanjiv Vasudeva:** So we just declared a dividend yesterday which is much higher than what we have declared in the past. That's the first thing. Secondly, like I mentioned, we are paying all of our loans, especially the ECB loans that we have taken. And we will evaluate how the market shapes or the economy shapes up, what's happening with the COVID because cash is very important, right? We've all seen last year what happened. The cash becomes very important in these very tough times.
- Abhijit:** To stabilize the business during this time?
- Sanjiv Vasudeva:** That's correct. That's correct. So we'll see it out for the next six months, one year, see how the Indian economy recovers, how does the COVID pan out? We're not out of the woods yet as a country, though we may like to believe.
- Abhijit:** Is there like any particular plan that we will first just quickly pay off these loans or just pay it gradually as like?

- Sanjiv Vasudeva:** First is to pay off all the loans and then see how the economy shapes up and then make a decision. And in due course, we'll inform you.
- Abhijit:** In the next two, three years, what's the plan for?
- Sanjiv Vasudeva:** So we'll see how the economy shapes up. First and foremost, we've got to get profitable and which we are getting profitable with each passing quarter, which is a very good sign. We have become cash positive which is also a good sign. So, step-by-step firstly get all the loans paid off, second, maintain the profitability for the few quarters, and then make a decision based on how the economy shapes up in the coming year for the next steps in India.
- Abhijit:** If the economy remains stable, so, then what would be our next plan?
- Sanjiv Vasudeva:** We will decide. At the end of the day Indian economy is based on global economy and other regions. So, I think all we can do is execute and get good business performance and that sets up very well for the future for India.
- Moderator:** The next question is from the line of Yogesh Seth, an individual investor. Please go ahead.
- Yogesh Seth:** Sir, how is the demand environment currently at INEOS, because I think last quarter, the volumes were severely impacted with a lockdown. In the last conference call you had also said that demand in the month of May was around 30%, 40% lower?
- Sanjiv Vasudeva:** So the demand has been improving; May was the poor month, so June was better and July was even getting better, I would say we are 80% back to where the demand is. So, we expect the festive season to uplift the economy and all the segments that we play in. So, we are positive about the demand going forward.
- Yogesh Seth:** What's the view on the medium to long term for ABS as a product because one of the competitors last quarter Supreme Petrochem, so they are going for an ABS expansion?
- Sanjiv Vasudeva:** Supreme makes Polystyrene, not ABS and they also make Polystyrene. And with the LG having to shut down last year due to their issues in their operations here because of styrene tanks had fire if you may remember, right, so they had been shut down their capacity, so that was about 70,000 tons going out of the market. So our view is that Supreme this added capacity will just replace that capacity going forward for Polystyrene.
- Yogesh Seth:** Just a four to five years view on the ABS as a product for India?
- Sanjiv Vasudeva:** My view I think, I have repeatedly said, I would expect ABS to grow at 8% to 10% kind of levels assuming that there is no COVID or some major calamity which may happen. So, just like India is expected to grow at 6% to 7% of the economy. So we will look at 1.2 to 1.5 kind of a growth for polymer materials.

- Moderator:** The next question is from the line of Nitin Kapoor, an individual investor. Please go ahead.
- Nitin Kapoor:** Sir, in last couple of interactions with you, what I find is you sound to be a little more optimistic now compared to previous couple of meetings. But still I feel that the company is not aggressive enough in raising the capacity and other things. Don't you think that if you wait too long, the others will gain market share from you? This is one point. And another is what are the outstanding loans at the end of the year which you are thinking of repaying? The demand was low last quarter. So just wanted to confirm whether you had reduced the production or you are holding some excess stock of finished goods at the end of the quarter in anticipation of demand recovery?
- Sanjiv Vasudeva:** So your first question was on market share. I think as of now, more than the market share, profitability is the most important thing for India. And that's what we are focusing on to maximize our margins. There are imports which eat into the market share, which we don't mind, because they are low cost imports, taking away some of the low priced ABS and we do not want to use our capacity for low priced materials. So that is concerned, number one. I will answer your third question first and then I'll give it to Sanjeev for the outstanding loans. The demand was lower last quarter. And like I mentioned earlier, it's improving this past month. And it's not just for a lot of industry, right, not just for our polymer industry, for a lot of other industry, the demand in May was a difficult month and you can see it across different market segments that demand is improving.
- Nitin Kapoor:** Just wanted to confirm that, whether you reduced the production in those couple of months?
- Sanjiv Vasudeva:** Yes, from a production point of view, we did slow down our plants. We generally do not like to build a lot of inventory. Because you don't want to get tied up with a lot of raw materials or high cost inventory. So we manage our numbers based on our internal inventory targets and plan accordingly.
- Nitin Kapoor:** I know that you don't tell us about the volumes, but just wanted to confirm whether if there is any sudden rise in demand before the festival season or due to uptick in the economy, are you in a position to cater that?
- Sanjiv Vasudeva:** Yes, we should be.
- Sanjeev Madan:** Regarding outstanding loans at the end of the quarter, so, if you remember our balance sheet, we had taken Rs.100 crores loan from ECB, out of that we had already paid a certain portion in the last year, so, balance was only Rs.54 crores as of 31st March 2021, out of that, Rs.44 crores we had already paid in this quarter, so, balance will remain Rs.10 crores which as per ECB guidelines we will pay accordingly in future. So, net-net 90% of ECB loan will get repaid for the Moxi plant for which we have taken.
- Moderator:** Next question is from the line of Abhishek Jain from VC Corporate. Please go ahead.

- Abhishek Jain:** Do you have any update about the LG plant coming onstream? And if not, even in this environment why the people are not bringing this capacity onstream? Could you tell me how this slowdown and low volume trends impacting the inventory level and receivables of the Company?
- Sanjiv Vasudeva:** So I could not hear your second part of the question but let me try to answer and see how things shape up. So the LG plant we don't know what their plans are. All we know that since May, June last year, they have been shut, it's been over a year. And basically all the regulatory bodies and all who have been discussing with them, they're not able to restart. That's all we know. Whether they're going to restart in three months' time, one year's time, and three years' time? I don't know. But from what we have observed in the market, and what we have read in the papers that they are shut. And of course, that has played an effect on the Polystyrene volume in India which has helped some of the other players to maintain good margins and volume.
- Abhishek Jain:** Two questions: one is I can see in the international market, China prices have come down by 10% to 12% in the last one and one and a half months, but this ABS prices are remaining quite firm like \$2,300 to \$2,500. So, are you anticipating better margin in the September quarter or is my assumption wrong?
- Sanjiv Vasudeva:** Data points are correct but all data points need not tie together, right, because it depends on what inventory you are seeing for which month and all, but directionally if ABS prices are still holding good, styrene is going down a bit so are the ABS prices. We just have to wait and see how things shape up. Very difficult for us to predict what their margins are going to be going forward.
- Abhishek Jain:** What sort of inventory buildup has happened because of the slowdown in the Q1 as compared to last year end how much has been a difference both in terms of inventory and receivables?
- Sanjiv Vasudeva:** We don't disclose our numbers, but basically our receivables have been under control and our inventory has also been well managed from a finished goods point of view.
- Abhishek Jain:** You were just talking about the high cost inventory sort of. It comprises mostly of the raw materials and other finished goods?
- Sanjiv Vasudeva:** Yes.
- Abhishek Jain:** The auto sector is biggest user of our products. So how does the slowdown in this segment is impacting our business profile?
- Sanjiv Vasudeva:** We sell into multiple segments; auto is one of them, we have been present in household electronics, we sell to distribution, we are into smaller appliances, packaging, helmet industry, electronics, healthcare. So auto is the important sector. And the slowdown does affect our short-term volumes, but we see a good recovery happening in the four wheelers and two wheelers also,

in July sales were much better than June. So we are optimistic about a rebound in the auto industry.

Abhishek Jain: INEOS is an MNC Company and the parent is quite reputed, biggest one in Europe. Like what we have seen in India is that we have got a fancy for MNC companies as an investor that if it's an MNC parent, because of the corporate governance and all these issues. So why is it not attracting good name of investors, no FII, no domestic mutual funds or any big individual action, nobody is buying this company or the other one as well, but as far as I understand that ABS is a very, very complex product and it's a duopoly market and still in this entire booming market of specialty chemicals, where is the cash actually, that nobody is entering ABS segment, the sales touching the stock, just a general question, you don't need to answer if you don't want to, really annoying, this seems to be a very, very complex business actually?

Sanjiv Vasudeva: I cannot comment why investors are not interested or mutual funds also not trying ABS but all I know that the share prices and the market capitalization has improved vis-à-vis last year, a lot of chemical sector companies, specialty chemicals and polymers have shown improved profitability and that's all I can comment.

Moderator: Ladies and gentlemen, this was the last question for today. I would now like to hand the conference over to Mr. Abhijaat Sinha from INEOS Styrolution India Limited for closing comments.

Abhijaat Sinha: Thank you, everybody, for showing your interest in the Company and attending this earning call. We look forward to connecting with you during the next earnings call which is expected sometime in November. Thank you and have a nice day.

Moderator: On behalf of INEOS Styrolution India Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.