



“INEOS Styrolution India Limited Investor’s Call”

August 08, 2019



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Moderator: Ladies and gentlemen, good day and welcome to the INEOS Styrolution India Limited Investors Call. We have from the management team today Mr. Sanjiv Vasudeva -- Managing Director; Mr. Sanjeev Madan -- Chief Financial Officer; Mr. Abhijaat Sinha -- Head - Legal & Company Secretary; Mr. Munjal Parekh -- Head (Controlling); and 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 entering "*" then "0" on your touchtone telephone. Please note that this conference is being recorded.

I now hand the conference over to the management. Thank you and over to you.

Sanjeev Madan: Dear shareholders, investors and analyst's fraternity, we welcome you to this earnings call. Your company, INEOS Styrolution India Limited has declared its results for quarter ended June 30th, 2019 on 7th August 2019.

We will brief you about the major highlights of the performance. Regarding quarterly performance, profit before tax in April to June 2019 stands at Rs. 1433 lakhs as compared to loss of Rs. 2,034 lakhs in previous quarter. Profit before tax in April to June 2019 stands at Rs. 1433 lakhs as compared to profit of Rs. 2,659 lakhs in April to June 2018.

Revenue (**net of GST**) from operation in current quarter is Rs. 44,348 lakhs as compared to Rs. 59,446 lakhs in April to June 2018. Revenue from operations (net of GST) in current quarter has increased to Rs. 44,348 lakhs as compared to Rs. 48,218 lakh in previous quarter.

Segment results:

Specialties

Profit before interest, tax and other un-allocable expenditure stands at Rs. 1055 lakhs in current quarter as compared to loss of Rs. 1666 lakhs in January to March 2019 quarter.

Polystyrene

Profit before interest, tax and other un-allocable expenditure is Rs. 585 lakh in current quarter as compared to profit of Rs. 94 lakhs in January to March 2019 quarter.

The company has adopted modified retrospective approach as per Para C8 (C) (ii) of Indian Accounting Standard 116 on Leases, effective from April 1st, 2019. Accordingly, comparatives of the year ended 31st March, 2019 (including quarters ended June 30th, 2018 and March 31st, 2019) have not been retrospectively adjusted. On the initial date of application, the company has

recognized right of use of assets (an amount equal to the lease liability adjusted by prepaid lease rent) as at April 1, 2019.

In the financial result for the current period, operating lease period has changed from rent including in other expenses to depreciation cost of right of use of assets and finance costs for interest accrued or leased liability.

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

Moderator: Thank you. Ladies and Gentlemen, we will now begin with the Question-and-Answer Session. We have the first question is from the line of Mayur Matani from ICICI Securities. Please go ahead.

Mayur Matani: I just wanted to know, how is the demand shaping up in the second quarter?

Sanjiv Vasudeva: This is Sanjiv Vasudeva. We expect the demand to be a bit better than the first quarter, considering that will have a festive season of Diwali. This will help the household electronics segment because typically people would buy consumer goods around this time. On the automotive side the demand has been pretty poor, as you know, over the last one year. As you may have heard earlier this week, the Automotive Associations SIAM ACMA, have all met the Finance Minister, they made a representation on what the government can do - either lowering the GST or some other ways where, more credit is given to the distributor and the dealers- We have a liquidity crunch as it is in the country. So, we will have to wait and see, if that really helps with the automotive rebound in this quarter. Directionally, I believe that, the inventories in automotive should be going down because as I understand the dealers who were holding 60 days, inventories is now down to 45 days. Generally, they still would like to have a 30 day inventory.. Not more than that. So, it is a kind of a mixed, can it be worse than earlier? I do not think so. Will it truly rebound right away? I hope so, while the other segments where we sell, like packaging and other segments that non-discretionary demand has always been there.

Mayur Matani: So, can you share how much is the auto decline and with regards to electronics and other segments, how much is the decline?

Sanjiv Vasudeva: Sure. Automotive as such, if you talk about passenger vehicles and these all data you can get from government website and from SIAM - it has declined about 27% in the passenger vehicles segment, the whole automotive market in general has declined by about 13%. So, depending on passenger vehicles, commercial vehicles, LMV or a heavy vehicles the decline has been 12-25%.

Mayur Matani: So, our decline is in line with that only or our volume decline to the auto segment is higher or lower?

- Sanjiv Vasudeva:** Our decline is less than that. So, if the markets declined by 12% - 13%, we have declined by probably 5% in automotive, not more than that.
- Mayur Matani:** Okay. And you were mentioning that in the Polystyrene and ABS segment, the imports were higher. So, like, how do you see the scenario right now because due to the trade war, there is a substantial drop in demand globally. So, do you see increasing pressure on the margins or do you foresee that there will be some improvement going forward on that front?
- Sanjiv Vasudeva:** Yes. For Polystyrene, Supreme and we have made representation to the government on Anti-Dumping because we have seen some of the producers of Polystyrene dumping goods in India at very low prices which has been affecting our margins here. While Anti-Dumping proceedings have started, the government takes its own time in resolving this, because the countries in question will have to make the representation, there are 45 days given for them to make. And then my understanding is the whole process takes about six months or so. So, hopefully, we will have a result. So, we have taken some action. But you are right, if you have the trade war with China and then if some of the suppliers in Korea or Japan are not shipping to China, they may start shipping to India, right.
- Mayur Matani:** Okay. And sir, our margins in the ABS segment has declined more than our competitors. So, is there any specific reason to that or?
- Sanjiv Vasudeva:** Well, our margins have declined a bit more because we still had some issues with the raw material; we had some high cost raw materials here. We were short a bit of rubber. So, we still had to import rubber. So this caused a margin decline.
- Moderator:** Thank you. We have the next question from the line of Rohit Nagraj from Sunidhi Securities. Please go ahead.
- Rohit Nagraj:** Sir, in the earlier part you have mentioned about the user segment break-up. So, in our two segments Specialties and Polystyrene, how does the user industry works for auto, non-auto or packaging?
- Sanjiv Vasudeva:** Specialty which is ABS, typically goes in automotive, household electronics, a little bit in packaging and in TSLO what we call toys, sports and leisure, all kind of small appliances or small toys and multiple applications. Polystyrene does not go so much in automotive. In fact, it is not used at all in automotive Polystyrene typically would be used in the liner of your refrigerators, right. So, it goes in household electronics, it will be in your washing machine and then packaging is a very big industry for Polystyrene. All the Polystyrene cups plates and then there are several other segments like bangles and beads. And then, during the weddings, there are sheets made out of Polystyrene for the setup and all. So, Polystyrene has a totally different space. The only common space between the two segments is household and electronics.

- Rohit Nagraj:** Okay. So, in terms of segmentation broadly out of our total business, how much would be exposure to auto industry, consumer durables and maybe packaging, a very broad break up on that?
- Sanjiv Vasudeva:** I would say, we do not disclose the numbers, but we have a pretty balanced representation in all the segments.
- Rohit Nagraj:** Okay. And just again, on the specialties particularly on the ABS side. So, have we seen any kind of slowdown from the customers or they are just in wait and watch mode in terms of placing the orders for the current quarter?
- Sanjiv Vasudeva:** Like I replied earlier, automotive is one of the key segments in ABS, it is a bit of wait and see and like you mentioned earlier, we hope that the inventory levels are going down and the festive season will not just prompt demand for the consumer goods but also, people start buying two wheelers and new cars.
- Rohit Nagraj:** And just in terms of spread...How have spreads moved quarter to quarter basis from Q4 to Q1?
- Sanjiv Vasudeva:** So, the spreads have been more or less constant or in fact improved a bit here versus last quarter, yes versus the previous quarter they have improved.
- Moderator:** Thank you. We have the next question from the line of Arjun Sehgal from Reliance Mutual Fund. Please go ahead.
- Arjun Sehgal:** Sir, on these imports of ABS into the country, now that China is slowing down and the trade war is getting ratchet it up. So, what is your outlook on the imports of ABS?
- Sanjiv Vasudeva:** So, historically, imports have been there in the range of 30% to 40% and we expect it to be in that range going forward, until and unless Anti-Dumping is imposed on ABS as well.
- Arjun Sehgal:** But if there is, if China is incrementally slowing down more, can that not increase the import component into India because of dumping?
- Sanjiv Vasudeva:** There are imports because plant utilization of us and our local competitors is pretty high on ABS, right. And whenever utilizations are high for the plants, there is not more capacity until and unless we increase. So, import is done to fill that demand- So, that level will always be there for the LGs and the other Korean players to send the material to India.
- Arjun Sehgal:** I mean, what is your raw material inventory typically at any point in time?
- Sanjeev Madan:** Generally, for I mean, for the raw material, we used to keep around 40 days -45 days; finished goods inventory is not more than 15 days. That is what we use to plan for it.

- Arjun Sehgal:** Okay. So, as you mentioned in the presentation that towards the second-half of this quarter, I think, there was an increase in raw material cost, what has driven that increase, in the second-half of this June quarter.... because crude is still being largely downward pressure, I guess.
- Sanjeev Madan:** In Asia-Pacific, the delta margin was going down. So, that is what we had mentioned it over there.
- Sanjiv Vasudeva:** And it happened predominantly with the AN and BD not with the styrene, Styrene is not the biggest problem that we had in Q2.
- Arjun Sehgal:** How has the styrene prices been over the last three - four months?
- Sanjeev Madan:** It has been flat, stagnant. AN has gone down by a couple of \$100 in the last two months.
- Arjun Sehgal:** Okay. So, there has been some increase in raw material besides styrene is what you are saying.
- Sanjeev Madan:** Yes.
- Arjun Sehgal:** So, to lower margins in the coming quarter, because end product sale price will not in this market?
- Sanjiv Vasudeva:** Well, we do try to pass on the prices to the customer because we have formula-based pricing also, monthly, quarterly pricing with the customers and that is the beauty of having all these formula-based pricing with automotive and all. Because irrespective of what happens, we give them surety of supply. What do the local players do that the import cannot do? We give surety of supply, right? And then we make all the specialized grade and imports are typically commodity kind of materials, which we import in bulk. Of course, we also participate in that segment but our core business where we want growth and which we try to keep working on based on our triple shift strategy is specific segments with premium products. So, they are relatively less prone and because the raw material are already part of the formula prices, they are less prone to us not being able to pass on the ASP. Having said that, again, it depends on the demand, right. Until the demand should not go down...if the demand goes down our net total dollar will also go down.
- Arjun Sehgal:** Correct and you have supplied to these auto players.. Just to understand you typically how much inventory do they hold of ABS at any point in time? What I am trying to understand is that if auto slowdown has been intense, in the last few months, will that reflect in our numbers with a lag?.
- Sanjiv Vasudeva:** Typically, they do not hold. Automotive believe in just-in-time deliveries, that is why they have local players. That is why we have a warehouse to serve these customers. So, they will not be holding more than a couple of days' or one week's inventory. So, that is why the expectation for

us to hold. Hence, we hold that 14 days that Sanjeevv talked that inventory, because from Vadodara going to Chennai itself will take some time five days.

Sanjeev Madan: And you can recall, the slowdown started from the last year, October, November onwards and the whole period I mean whatever the inventory they have that period is already over now. So, we do not believe they have any more inventory now.

Arjun Sehgal: Okay. And like you said the auto market was down 13% but we are down only 5% in autos, how do we explain our outperformance from the volumes?

Sanjeev Madan: So, we participate in multiple segments. So, I do not believe that the consumer goods are as much down by 25% as automotive.

Arjun Sehgal: No, you said Styrolution is down 5% in auto versus the market which is down 13%. So, just the auto segment, I think you have outperformed auto segment, right?

Sanjeev Madan: Correct.

Arjun Sehgal: So, I just want to understand what led to that.

Sanjiv Vasudeva: Sure, we will try to gain share at some of the other accounts, right. Ideally if auto is my segment which gives me the most premium products, I would like to maximize my share position, right. And so we tried to...

Sanjeev Madan: From competition, from import, import also has reduced last quarter.

Arjun Sehgal: Okay. So, you are taking share from imports, right? Because your competitor has grown. So, you would have probably taken into account imports.

Sanjiv Vasudeva: That is correct, we saw at least 2% to 3% points drop in import.

Sanjeev Madan: Competitor is we are not sure, on what basis you are saying competitor revenue has grown. I think, you can may recheck it. So, although we do not want to comment on the competitor. But volume may have got dropped maybe you can recheck.

Sanjiv Vasudeva: Imports have gone down.

Sanjeev Madan: But the imports is definitely is going down in the last quarter.

Arjun Sehgal: Okay. And would you like to give an outlook on the spreads going forward?

Sanjiv Vasudeva: Very difficult for us to comment but I believe it should be in a similar to what we have as of now because I do not see major changes happening here.

- Sanjeev Madan:** Yes, I mean, looking at the festival season is coming up and the demand should go up that is what we feel so. However, looking at the global scenario, the tariff war and all that, it is very difficult to predict the even the future. Recently FX is also impacting. So, it is very, very difficult now to predict the long-term future but short-term in this quarter, looks very promising, as of now.
- Arjun Sehgal:** And a rupee depreciation is a negative for us right because we import raw material, is that correct understanding?
- Sanjeev Madan:** Absolutely. So, we do the hedging as well and also as the Sanjiv has mentioned earlier, we passed on to the customer depending on the agreement with the customer weekly or monthly or quarterly basis depends on the formula prices with our customer.
- Arjun Sehgal:** Right. And one last question, you had mentioned that internally you were studying some larger expansion plans. So, of course, now the market complexion has changed in the last one year. So, how are those as in.. are you keeping those studies?
- Sanjiv Vasudeva:** Our studies are still ongoing and at the appropriate time, we will inform our shareholders.
- Moderator:** Thank you. We have the next question from the line of Charmi Mehta from Prabhudas Lilladher. Please go ahead.
- Charmi Mehta:** Sir, I just wanted to ask one question that is, out of the total sales like how much do we provide to the auto segment of the total sales?
- Sanjiv Vasudeva:** We have a very balanced share sales to all different segments. We do not give specifics on our what segment we sell how much, like I mentioned earlier, we participate in packaging, distribution TSLO, distribution automotive, automotive forms a good portion of our business. Yes, let me put it this way.
- Charmi Mehta:** Okay. But sir, can you give us a range, if that is possible?
- Sanjiv Vasudeva:** We do not share the numbers here.
- Moderator:** Thank you. We have the next question from the line of Arjun Sehgal from Reliance Mutual Fund. Please go ahead.
- Arjun Sehgal:** Yes. Sir, just one last question on this Polystyrene segment. The profitability in this quarter is much better.. both quarter-on-quarter and Y-o-Y basis and I just wanted to understand, what has led to that? And if I look at our EBIT in Polystyrene is slightly better.
- Sanjiv Vasudeva:** Yes, like I mentioned earlier, Polystyrene is not that much affected by automotive because we are in packaging and other segments that has played a role in terms of demand there. Second,

the spreads are relatively better in Polystyrene. Hence, you see better margins for Polystyrene and Polystyrene predominantly styrene because 95% styrene, unlike ABS, which is 65%. So, there the effect of BD and AN which I mentioned earlier, is there. While in Polystyrene that effect is not there of the increase in BD and AN and styrene prices are pretty much stagnant, right. So, we will need to manage the price volume very well.

Moderator: Thank you. As we have no further questions, I would like to hand the floor to Mr. Abhijaat Sinha for closing comments.

Abhijaat Sinha: Yes, sure. So, hi, everybody, thank you for joining this call and showing interest in the company. We value your participation and we will be glad to hear you next time at our next earnings call. Thank you and have a nice day.

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