



“INEOS Styrolution India Limited
3rd Quarter FY17-18 Results Conference Call”

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**MANAGEMENT: MR. SANJIV VASUDEVA – MANAGING DIRECTOR &
CHIEF EXECUTIVE OFFICER,
INEOS STYROLUTION INDIA
LIMITED**

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

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

**MR. HARESH KHILNANI – COMPANY SECRETARY &
HEAD-LEGAL, INEOS
STYROLUTION INDIA
LIMITED**

Moderator: Ladies and gentlemen, good day and welcome to INEOS Styrolution India Limited's Q3 FY17-18 Results Conference Call. We have with us today, Mr. Sanjiv Vasudeva – Managing Director & CEO, Mr. Sanjeev Madan – CFO, Mr. Munjal Parekh, Head – Controlling and Mr. Haresh Khilnani – Company Secretary, Head – Legal & Compliance from the management side of INEOS Styrolution.

As a reminder, all participants' 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 '*' and then '0' on their 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.

Sanjiv Vasudeva: Good afternoon, ladies and gentlemen. This is Sanjiv Vasudeva – MD and CEO of INEOS Styrolution India Limited. I welcome you to this call. I would also like to welcome Mr. Sanjeev Madan our new CFO, who has joined us from SABIC Innovative Plastics. He has a good 20 - 25 years of experience in various industries and I am sure he will add lot of value to our Company.

With this, I would like to hand over to Sanjeev to take you through the financials of the Company. Thank you.

Sanjeev Madan: Dear shareholders, investors and analyst fraternity. We welcome you to this earning call. Your Company INEOS Styrolution India Limited had declared its results for third quarter and 9 months ended 31 December 2017 on 29 January 2018. We will brief you about the major highlights of the performance. Kindly note that our revenue from the operations for the period up to 30 June 2017 includes excise duty which is discontinued effectively from 1 July 2017 upon implementation of Goods and Services Tax, GST in India. In accordance with the IndAS-18, revenue GST is not included in revenue from the operations. In view of the aforesaid, restructuring of indirect taxes revenue from operations for the quarter and 9 months ended 31 December 2017 are not comparable with the previous periods.

Regarding quarterly performance, profit before tax (PBT) in October to December 2017 increased to INR 2,283 lakhs as compared to INR 923 lakhs in corresponding previous quarter October to December 2016, which was mainly affected due to demonetization. The revenue (net of excise/ GST) from operations in current quarter increased to INR 45,304 lakhs as compared to INR 31,490 lakhs in October to December 2016. However, on gross basis including excise duty revenue was INR 35,316 lakhs in previous corresponding quarter.

Profit before tax (PBT) in October to December 2017 is INR 2,283 lakhs as compared to INR 2,556 lakhs in July to September 2017, which is mainly due to subdued demand, post festive season. Revenue from operations in current quarter is INR 45,304 lakhs as compared to INR 48,262 lakhs in July to September 2017.

Regarding year to date performance profit before tax in current period YTD December 2017 is INR 5,273 lakh as against INR 6,148 lakhs in previous period YTD December 2016. It is mainly due to sharp fall in raw material and finished goods prices, which caused inventory loss during first quarter April to June 2017. Revenue increased from INR 121,987 lakhs in YTD December 2016 to INR 144,017 lakhs in YTD December 2017 mainly due to increase in sales volume. However, revenue net of excise duty increased from INR 108,852 lakhs in YTD December 2016 to INR 138,483 lakhs in YTD December 2017 period.

Segmental results, Specialties profit before interest tax and other unallocable expenditure is INR 2,438 lakhs in current quarter as compared to INR 2,690 lakhs in previous quarter. Polystyrene profit before tax and other unallocable expenditure is INR 69 lakhs in current quarter as compared to INR 409 lakhs in previous quarter.

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, sir. Ladies and gentlemen, we will now begin the question and answer session. Anyone who wishes to ask questions may press '*' then '1' on your touchtone telephone phone. If you wish to remove yourself from the question que, you may press '*' then '2'. Participants are requested to use handsets while asking the questions.

Our first question is from the line of Sanjay Shah from KSA Shares and Securities. Please go ahead.

Sanjay Shah: Good afternoon sir, in last many quarters our polystyrene division could not show a good profitability, but growth in sales is visible. So, what is your comment on that and how can we take this forward to make it a profitable division?

Sanjiv Vasudeva: Polystyrene is a pretty cyclical business and a lot depends on the delta margins. There are some years or quarters where you will enjoy good margins and otherwise it is a very tight kind of business. So until and unless we try to make a new product there, which would mean revamping the plant with another product, we will have to focus on either cost for us to get better margins or just try to mixup within the existing portfolio of the GPPS polystyrene grade or the high impact polystyrene grade and work on the mix piece to get better margins. So leaving the fact that because it is a very limited portfolio for 6 products, so there are not many degrees of freedom that you have. So focus on cost and running the plants full out which unfortunately have not happened last year are some of the key to success for this business and then wait for the good quarters and the good years where you have better delta margins.

Sanjay Shah: So, except for bringing down the cost, you uttered about value-added products, so have we lined up something and are we working on that?

Sanjiv Vasudeva: Not on polystyrene.

- Sanjay Shah:** So, only the cost efficiency that can bring us a margin on this business?
- Sanjiv Vasudeva:** And working on the mix between the GPPS and the HIPS because it still has 6-7 different grades. So, playing within grade, not adding any product but playing within those grades is what we can do.
- Sanjay Shah:** And sir, we had talked earlier about introducing some global products into India, not manufacturing but marketing. So, are we doing that and what is success in that?
- Sanjiv Vasudeva:** Yes, we will be starting. This year we have taken in some of our plan to market that product. You would soon see it in the market in the coming quarters.
- Sanjay Shah:** That will be only marketing initially or later on will it be manufacturing or what is the plan about it?
- Sanjiv Vasudeva:** We may decide to manufacture part of it. A very small part of it but no decision has been made about that yet but we will first begin with marketing.
- Sanjay Shah:** Sir, after this crude going up, how do you see our business year ahead?
- Sanjiv Vasudeva:** Year ahead is too difficult for me to predict but the coming 2-3 months looks like raw materials will be on the high. With crude again has been rising over the last 2-3 months and has touched 70. If you look at the Benzene or styrene or the general price of ABS everything has gone up. So, I expect February, March to be pretty similar as January beyond that to be honest Sanjay, it is very difficult to predict.
- Sanjay Shah:** But sir, how about demand side?
- Sanjiv Vasudeva:** Demand is not an issue in India. We are looking at 8% to 10% kind for demand for ABS. I think, so that is not the problem we have here.
- Sanjay Shah:** Thank you for answering the questions.
- Moderator:** Thank you. Our next question is from the line of Sudarshan P from Sundaram Mutual Fund. Please go ahead.
- Sudarshan P:** Sir, my question is about contract, if I am correct, you mentioned in the last quarter that we have a long-term contract, which is why we were not able to harness the kind of benefits of the spreads that we were seeing. So, have we renegotiated the prices both with our customers and the suppliers and how do we see this in the coming year with the new prices? What is the kind of spread one can expect?

- Sanjiv Vasudeva:** Thanks for your question. We believe in surety of supply for our customer, when we commit to our customers the first thing they are looking at is good product with the right service level. So for us having the surety of supply is very important. Hence, we make these contracts, both with the customers and with suppliers, so that we have the raw materials flowing in and we produce the right material for the customers. Now I think last time we talked about honoring those contracts both at the customer end as well as the supplier's end and we do not necessarily go out of the contract or buy more than the contract or buy less than the contract. In a longer run the strategy works out. You may have quarters where you may feel that sometimes the prices are low and you may want to buy double the amount or the prices are very high so you think why are you buying at a high price, but you are committed to that. So there could be 1-2 bad quarters, every now and then but in a longer span of 3 years-5 years-10 years those things always pay off and we strongly believe in that and that will always be part of our strategy.
- Sudarshan P:** Sir, when would the new contract come into force in terms of negotiation because the last 2 to 3 quarters, our gross margins has not reflected the kind of spreads that are actually going on, on the spot side. So, I mean would my assumption be right that given that globally lot of these MNC Companies look at contracts on an annual basis that either we would have started the new contract from January or we would be starting a new contract from April and that contract would basically be at the price either it is with the suppliers or the customers based on the current spreads or the spreads that should be there in the month of March?
- Sanjiv Vasudeva:** The contracts keep happening and it is not like in the month of January only we do all the contract for year but yes directionally in the first quarter you would have probably more contracts, but it is customers, it is an ongoing process. But I did not understand your question ?
- Sudarshan P:** What I am trying to understand here is that if you are comparing us in terms of gross margins with the Bhansali. I mean one is the back log of old contracts that we have which we need to honor which comes with lesser spreads and as these contracts get executed we will be entering into new contract and the new contract would basically be with the current spread which is much higher. So, I am trying to understand how this shifting of the gear will happen and when we can see that kind of visibility there?
- Sanjiv Vasudeva:** We do not necessarily need time to it and we do not want to speculate what Bhansali does or buys or how they set up the contract. Like I said earlier, we believe in steady supplies with our customers and in the longer run these things even out. That is our strong belief as a Company and not just INEOS Styrolution India but globally we have been in this business for good 30-40 years and I have a global experience in different markets. So, we know how it plays - short term, six months, one year there may be benefits but not in the longer run.
- Sudarshan P:** Sir, one final question from my side. You had talked about the next 2 -3 months in terms of your view on the crude, etc. But if I am talking about a bit more structural story of you being in an emerging market, also that a lot of MNC companies are now talking about focusing more in

India. Number one is from your side how do you see the entire market of the polystyrene and ABS playing for you and in terms of strategy what would be the go to market from your parent in terms of using your expertise in terms of getting their goals achieved from India?

Sanjiv Vasudeva: I think I mentioned earlier we are looking at a good 10% kind of a growth for the market. The market demand is there surely more so for ABS than for polystyrene because this polystyrene some applications have got replaced by polypropylene or by alternate material. But ABS, it is growing. So demand is there and you have multinationals coming in, automotive is growing at 8% to 10%. You see household and electronics growing so those are the segments that we are playing in and we also tried to use our global specification for some of the global players to kind of push some of our higher-end products into the market in India. So, globally how they can use us, I mean it is how we use our global resources and try to help India. Globally they would look at India as a big market where you expect a 10% kind of demand and would like to grow with the market. Hence the investments like we talked about in the AGM and with future investments plan. So, globally we have the support from them from a backing perspective, from a product portfolio perspective and from material support perspective. So, it is for us to kind of grow with the market and try to do product mix up into profitability.

Moderator: Thank you. We will take the next question from the line of Karan Khanna from Ambit. Please go ahead.

Karan Khanna: Sir my first question was regarding the ABS business. I think our total capacity is 80,000 tonnes, can we get some sense on what has been our capacity utilization in this business during the current fiscal and secondly, in one of the previous con calls you had mentioned that we are looking to double the ABS compounding capacity. So, have we made any progress on that or are we looking to add broad-based facility, or have we made any progress with regards to doubling the capacity?

Sanjiv Vasudeva: Yes, well we do not share our utilization numbers, but they are on the higher side for sure more than polystyrene. We made an announcement of adding 35,000 tonnes of compounding capacity at Moxi, taking the total Moxi from 65,000 to 100,000 tonnes and we looking at to be operational by Q1 2019.

Karan Khanna: And secondly now regarding this capacity addition of 34,000 tonnes that you just mentioned I think we are incurring a total CAPEX of around 130 crores as per the latest press release. If I look at Bhansali they are also adding capacity from 80,000 tonnes to around 137,000 tonnes, it is as per their latest press release. But the total CAPEX that they are incurring is around 70 crores. So, just wanted to understand as to why our CAPEX number is so high despite lower capacity addition?

Sanjiv Vasudeva: I think CAPEX is not just buying one set of extruders. It depends on the type of equipment that you buy, you can buy a Fiat or a Mercedes but depends on what kind of equipment you put in

and for what kind of time frame that you want that equipment to last and then what infrastructure that you built around it and the safety standards that you want to have. Being a global multinational Company there are somethings which we will not comprise on which is safety of our employees, we want to have a good plant design, of course we do not want to overdo. We are also in the business of making money. So the intention is not to overspend but do the right thing and not try to cut corners and that is the approach we have. I cannot comment on others.

Karan Khanna: Now just coming on to the business per se how sticky are the customer relationships in the business? I asked this because if you look at the past couple of years Bhansali has become fairly aggressive. Their revenues almost doubled over the past two years, while our revenue has sort of stagnated if you look at the December 2017 over December 2015. So, is it fair to say that we are losing a lot of market share here or is Bhansali sort of replacing imports, I mean how does it work?

Sanjiv Vasudeva: To answer your first question our customers are sticky. We still have a leadership position in automotive and household electronics which have been part of our triple shift strategy to focus on industry. About a year back we had lost shares, but I do not think we have been losing over the last few quarters. We do keep a track on the import data, so Bhansali has gained revenue and volume but it is not at our cost.

Karan Khanna: And just one more question on the polystyrene business, I think just wanted to understand broadly what is our strategy here because every quarter we have been hearing that we are trying to manage our cost in this business. But still if you look at 9 months ending December 2017 we have seeing losses in the business. So, what is the strategy going forward?

Sanjiv Vasudeva: Look I will be honest with you. This is a tough one and we always have to answer this question and the answer, in a highly commoditized business you have to focus on running the plants flat out as much as possible and focus on cost. There is not much of differentiation in the product, right. So, I feel odd repeating the same thing but that is something that we need to continuously keep going and keep working on the mix that I mentioned earlier between the product and so that is what we focus on.

Moderator: We will take our next question from the line of Anubhav Sahu from Moneycontrol. Please go ahead.

Anubhav Sahu: Hello sir, wanted to have a quick sense on the ABS pricing both sequentially or Y-o-Y terms, basically to set the context, there is an additional supply which is come in the global market particularly in China. I think 75,000 metric tonnes capacity. So, given that new supply and otherwise the kind of demand pick up on the other side from India and China. How is the pricing for ABS for the Company as well as overall?

Sanjiv Vasudeva: Well just a 75,000 tonnes does not make a big impact on the ABS market because globally it is much bigger, it is in millions of tonnes. Having said that, I mean lately the prices is more close

to around \$2000, you can google as well. But about a year back the prices would be around 1,800-1,900\$ but there are months where it goes down to 1,500\$ - 1,600\$. So middle of the year it went down to 1,500\$ -1,600\$, now it back at 2,000\$ levels. So it is pretty cyclical business, it is not just one capacity addition which makes the difference. I think there are lot more factors sometimes and predominantly it is the China demand which makes the difference and what government policies are there, government sometimes goes hard on a few plants or on a few segments or increased their taxes on some cars. All those things have an impact. So I think that is what drives the prices more and of course followed by capacity, because at the end it is all about supply and demand. China is a factor what happens there and sometimes you do not know what happens in China, so very odd answer but that is the reality.

Anubhav Sahu: So from the same context sir, how has China, I mean you have partially answered it, but I think they had some news flow regarding banning of import of scrap plastics in China and which was inferred that will lead to incremental demand within China for the virgin plastics, virgin ABS. So how is that factor playing out in China?

Sanjiv Vasudeva: I think that factor has played out. You see an improved demand in China. In fact, if you see the geopolitical relation also between Korea and China, they had issues with South Korea and some of the big ABS producers are from South Korea. So then they have increased the duties or they encourage their local OEMs not to buy from South Korea. So a lot depends on China's geopolitical relations as well. The duty structure or they kind of do not encourage locals to buy from some of the other countries and those stay in effect and you cannot predict some of these. So we just manage it through the year.

Anubhav Sahu: And sir my second question was on styrene. How is the pricing trend now? Is there some softness in the pricing recently? It has been quite elevated in mid of last year. So is there any softness on that side?

Sanjiv Vasudeva: Styrene in fact is going up over the last 2-3 months. It has been going up.

Anubhav Sahu: And is there some temporary phenomena also, I had heard some plant shutdown in the Europe side which could also lead to tightness on styrene.

Sanjiv Vasudeva: Sorry, I am not aware of all the details, I will not be able to comment.

Anubhav Sahu: And sir, how is the current quarter going in the volume terms? You pointed out that because of those festive seasons there was slowness demand last quarter but how has the current quarter picking up? Is it the same rate as we had for last quarter or it is little better in that term?

Sanjiv Vasudeva: We should expect better results, better volume growth in this quarter for sure.

Moderator: Thank you. We will take the next question from the line of Sameer Raj from Reliance Mutual Fund. Please go ahead.

Sameer Raj: Thank you sir for giving me this opportunity and this is first time I am attending the call after you have taken over. So, overall as an investor somehow in INEOS we feel we have lost so many opportunities in the market kind of, so just want to understand that what is your medium-term plan to bring this Company back on the growth track and are there any leanings for us from our competitor that is number one. And secondly on the styrene businesses, for us is not doing well. So, I just want to understand why this business is of strategic importance for us and can you consider getting out of that business if it is not making money for us?

Sanjiv Vasudeva: I think firstly, maybe I will answer last question, can we get out of the business, I mean that is not our intension and even if you had to - whose there to buy. Let me be very candid, but why would we? this is still a business we are in, it is located close to the port, we have an extra land there. Like I mentioned earlier there are quarters and years where you can make good money. It is unfortunately the polystyrene is so much tied to styrene and styrene prices and it depends on your timing and you cannot time every time and sometimes your timing goes wrong. So, that results in a good or a bad quarter. So, it affects polystyrene more because 95% styrene and while in ABS you will have more like 60% styrene. So, hence the same effect is there in ABS but ABS because of the other stuff in it you do not feel that pinch while you may in polystyrene. Coming back to our medium-term plans, I think we have announced our capacity addition in compounding in the AGM. We also said that we are doing some first level engineering analysis on additional capacity for SAN and rubber. At the appropriate time once we have made those decisions we will surely inform all the shareholders and investors. And for us, our growth strategy still remains growing with the OEMs focusing on the key markets like automotive and household electronics. We continuously try to do a product mix up whether with local products or by import products.

Sameer Raj: So, overall now with the kind of steps we have taken you feel confident that the in the coming 3 years will be significantly different compared to last 3 years?

Sanjiv Vasudeva: A lot depends on how the global rubber supplies also play the effect and I am talking ABS. Here globally, we have to look at how rubber plays and what sources are available and that will be a key in determining and overall production of rubber, those will be the key in determining the profitability for the business.

Sameer Raj: And lastly, is there any thought process to bring any new products apart from the existing products which you have from our global portfolio or something?

Sanjiv Vasudeva: Well, there is a design space for ABS, within ABS we have a bunch of like 170 different products. It is not like one product that we sell, and we keep working on different tweaks and all. When we talk our new product, we are talking about totally different polymer, right like there will be K-Resin, rubber that we talked about. As a gentleman asked us we will be starting to sell it, market it by this year, starting this quarter but probably production is something that we can take it as a next step. We may take part of it to make some blends. I think the whole

polymer industry is not making new polymers as such, it will be more of blend of different polymers and that is what we would be doing as well.

Moderator: Thank you very much. Ladies and gentlemen, that was the last question. I now hand the floor back to Mr. Haresh Khilnani for closing comments. Over to you, sir.

Haresh Khilnani: On behalf of my management I thank you all very much for attending this Earnings Call and should you have any further questions or need any further clarification, please feel free to contact us or email us. We will try to address it at our earliest. Thank you so much and have a nice day.

Moderator: Thank you very much. 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.