



“INEOS Styrolution India Limited Q3 Ended 31st
December Results Conference Call”

February 13, 2017



**MANAGEMENT: MR. SANJIV VASUDEVA – MANAGING DIRECTOR &
CEO
MR. BHUPESH PORWAL – CHIEF FINANCIAL OFFICER
MR. HARESH KHILNANI – COMPANY SECRETARY AND
HEAD – LEGAL**

Moderator: Ladies and gentlemen good day and welcome to the INEOS Styrolution India Ltd. third quarter ended 31st December, 2016 Results Conference Call. We have Mr. Sanjiv Vasudeva – Managing Director and CEO. Mr. Bhupesh Porwal – Chief Financial Officer and Mr. Haresh Khilnani – Company Secretary & Head (Legal) from the management side of INEOS Styrolution. As a reminder, all participants’ line will be listen-only mode and there will be an opportunity to 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 your touchtone phone. Please note that this conference is being recorded. I now hand the conference over to Mr. Bhupesh P. Porwal CFO. Thank you and over to you sir.

Bhupesh Porwal: Thank you. Dear Shareholders, investors and analyst fraternity, we welcome you to these earnings call. Your Company INEOS Styrolution India Ltd. has declared its results for third quarter and nine months ended 31st December 2016, on 9th February 2017.

I will brief you about the major highlights of the performance. First regarding year to date performance, profit before tax increased from INR 3293 lacs in YTD April to December 15 to INR 6148 lacs in YTD April to December 2016. That is 87% increase in profit before tax. PBT increased mainly due to competitive pricing and focus on margin improvement. There was an inventory loss on the previous year due continuous fall in raw material prices in line with fall in crude oil prices which was not there in this year.

Sales volumes decreased from 105.4 KT YTD April to December 15 to 95.9 KT in YTD April to December 16. It is mainly due to currency demonetization impact in quarter October to December 16 and lower production which was impacted by constrained supply of key raw materials Butadiene during quarter April to June 16. Gross sales decreased from INR 132045 Lacs in YTD April to December 15 to INR 118544 Lacs in YTD April to December 16 giving a reduction of 10.2%. The reduction is mainly due to constraint in supply of key raw materials Butadiene during quarter April to June 16 and lower sales volumes as the result of demonetization during November and December 16.

Now regarding quarterly performance profit before tax increased as compared to quarter October to December 15. It is increased from loss of INR 472 lacs in October to December 15 to profit of INR 923 lacs in current quarter October to December 16. Mainly due to competitive pricing and focus on margin improvement and there was an inventory loss on quarter October to December 15 due to fall in raw material prices in line with the crude oil prices.

Profit before tax decreased from INR 2952 lacs in quarter July to September 16 to INR 923 lacs in current quarter October to December 16 mainly due to lower sales as a result of demonetization.

Now I will come on to the Segmental results, first about the specialties, our revenue increased marginally from INR 25333 lacs in quarter October to December 15 to INR 25480 lacs in

current quarter October to December 16. However, revenues decreased by 14% from INR 29645 lacs in quarter July to September 16 to INR 25480 lacs in current quarter October to December 16. Specialty in profits before interest, tax and other un-allocable expenditure increased from INR 542 lacs in quarter October to December 15 to INR 1553 lacs in the current quarter October to December 16, which is an increase about 187% Specialty profits before interest, tax and other un-allocable expenditure decreased from INR 3229 lacs in quarter July to September 16 to INR 1553 lacs in current quarter October to December 16 which is decrease about approx.. 52% and these decrease is mainly due to demonetization.

Regarding Polystyrene business revenue decreased from INR 12519 lacs in quarter October to December 15 to INR 9154 lacs in current quarter October to December 16th. This decrease is approx 27% and the revenue also decreased by approx.. 29% from INR 12946 lacs in quarter July to September 16th to INR 9154 lacs in current quarter October to December 16th.

Polystyrene loss before interest tax and un-allocable expenditure increased INR 141 lacs in quarter October to December 15 to loss of INR 239 lacs in current quarter, October to Dec. 2016.

Polystyrene profit before interest tax and other un-allocable expenditure decreased from INR 197 lacs profit in quarter July to September 16 to the loss of INR 239 lacs in current quarter October to December 16. This decrease is mainly due to lower sales volume due to demonetization.

So, this is all about clarification and details about our financials we can go forward for the queries and clarifications which are further needed. Thank you.

Moderator: Thank you very much Sir. Ladies and gentlemen, we will now begin the question and answer session. We have the first question from the line of Dikshit Mittal from Shubhkam Ventures. Please go ahead.

Dikshit Mittal: Sir my question is regarding the volumes like this decline have we lost these volumes or they have been deferred from third quarter to fourth quarter?

Sanjiv Vasudeva: Most of these volumes we believe has been deferred because November, December after the demonetization, we had a pretty severe currency crunch in the country and for the fore example the automotive demand was now nearly 5%, two-wheeler demand was down by about 30% this is back in December. Now if you see in January SIAM data the auto demand has comeback, the four-wheeler demand has comeback by about 10% while the two-wheeler demand which was -30% is now more like - 15%. And the demand is coming back so I would say it was deferred demand. Yes.

Dikshit Mittal: Okay so how has been this first half of this quarter, have been we recoup some of the volumes or is it still soft if you compare year on year basis?

- Sanjiv Vasudeva:** In line with the auto segment like I mentioned right. We cater to that segment so directionally it is in line with that.
- Dikshit Mittal:** Okay. Can you give the breakup between ABS and PS for the volumes for this quarter?
- Management:** I think we don't publish the volume of both the segments separately but we publish the revenue operational.
- Dikshit Mittal:** And lastly we have seen gross margin expansion during this quarter is there any element of inventory gain also in this quarter or it's operational?
- Management:** In comparison to what?
- Dikshit Mittal:** Both quarter on quarter and year on year if I say if gross margins is around 25% so if I see first half around 22% so increase is due to some inventory gains or is it operational?
- Bhupesh Porwal:** As I said in the initial explanatory remark it is regard related to both, so competitive pricing and focus on margin improvement and second there was inventory loss in the previous year basically. In this year we didn't had any loss but had marginal gain because market is moving up in terms of raw material prices.
- Dikshit Mittal:** So this third quarter margins are sustainable going forward?
- Sanjiv Vasudeva:** Third quarter margins in given conditions, 'yes'.
- Dikshit Mittal:** Okay, thank you.
- Moderator:** We have the next question from the line of Sanjay Shah from KSA securities. Please go ahead.
- Sanjay Shah:** Can you explain us the key strategy to improve our margins for our business, because predominately we believe that we should do around 2-digit margin, but every time we fail to achieve either due to raw material issue or demand side issue. Usually I believe that we don't have much of demand side issues but raw materials are driven by the margins are driven by the raw material, so can you span out on that sir?
- Sanjiv Vasudeva:** Well margin depends as you said on the raw materials for sure if there is an expansion in the delta margin of the raw material it will surely affect our margins that one piece. Second is, you can work on your product mix to improve and launch new products which we are constantly doing in the market. Third is your pricing strategy how you price in to the market and play a price versus volume gain. If you remember earlier this year earlier last year we kind of, the volumes were not there, but we try to maximize our margins right to prices. So I mean we continue with that same approach and it is also a part of our triple shift strategy. like specific

segments like automotive, household, electronics, healthcare an emerging segment that we are focusing on to improve our profitability and margin.

Sanjay Shah: Sir could we able to garner more market share on the automotive side? Have we able to garner more market shares on automotive sides where margins are better.

Management: We constantly try to do that, try to take more share in automotive especially in the specialty segment.

Sanjay Shah: Sir is there any visibility seen in that side?

Sanjiv Vasudeva: Market share data we look forward to calculate, but directionally we have a pretty decent market share in the automotive, which we are maintaining and growing.

Sanjay Shah: Sir can throw some macro picture, globally how the market is and how the industry is doing? Any new capacity coming or anything?

Sanjiv Vasudeva: Globally there are not major ABS capacity additions there are few in China in the course of next three or four years, but nothing else which is major that we have heard of. So from that perspective we believe that the overall capacity utilization in the global industry will only grow higher in the medium to long term. Short term as you would have probably seen if you follow some of the prices, the Benzene prices the styrene prices have all gone up in the last two months. In fact, recent rubber as well, there is a rise pretty steeply so we believe that at least for this trend will stay for a while, as there has been some shutdowns in the group, some plant shutdown I believe in America so immediate short term also the margins look pretty good, but this is very difficult to predict, so macros that's what it looks like, yes.

Moderator: Thank you Mr. Shah. We have the next question from the line of Viraj Kacharia from Securities Investment Management.

Viraj Kacharia: Just had couple of questions, when you say margins occurred, if we talk about ABS, what are the sustainable margins we usually look at, given the kind of our focus on specialty and our focus on premium industries as a growth driver what is the sustainable margin one should look at ABS or a medium-term business?

Management: I mean historically we have seen margins ranging from from 15 to 22%. Right.

Viraj Kacharia: You are talking about the EBITDA level. Right?

Sanjiv Vasudeva: No at the moment contribution margin. EBITDA margins will go down 0% it tells, double digit we have seen double digit quarters as well right you know, but like to answer your question the margin generally stay between 15-22%.

- Viraj Kacharia:** I need a bit more clarity, if you look at the parents' product portfolio, they also sell a lot of other specialized ABS globally. Some of its which there is still some demand for those in India. So from INEOS Styrolution India perspective what is the scope for those products in India and is there any potential for us to manufacture and export some of those to some of the parents high cost destinations?
- Sanjiv Vasudeva:** I didn't mention healthcare as the segment, so we are introducing some of the global products also in India, not necessarily manufacturing in India but by sale for some of the emerging high-end segments like healthcare so that's a good example. Will we be manufacturing all the products in India? Probably no because we need we have assets globally, and we also try to optimize our assets for some specific products you get the best utilization for the return. If you have good supply chain you need not have all the pulse manufacturing the stuff. So, the strategy that we have is to launch products by imports and if it goes to substantial amount, if it commands on investment then surely we will invest.
- Viraj Kacharia:** Okay. Can you provide a split between specialty and commodity products in ABS for us and industry and how does this compare globally?
- Sanjiv Vasudeva:** We do not necessarily differentiate specialty ABS into further details. We do split our business into what we call ABS specialty and polystyrene that's the data we have provided.
- Viraj Kacharia:** Okay so another question was if you look at the payments which we make to parent and other payables, what is the product thought process we have, is there a certain cap on payments which we need to pay them and also in the terms in to the payables which we give parents and what is the sustainable level one should walk with?
- Bhupesh Porwal:** Can you elaborate it more what do you mean by cap on payments?
- Viraj Kacharia:** You need certain payments to repay parent entity on the yearly basis. this is for receiving different services of parent and then if we look at our overall working capital cycle we will see some worsening of working capital in last couple of years. This is the time where share of total denominated purchases from parent has been increasing, but at the same time overall payable has been on a declining trend. So just wanted to get a sense what is the cap in terms of those payment to services for a parent and how do we usually arrived at and also the working capital side and the payable terms?
- Bhupesh Porwal:** I don't know which two periods you're comparing but I will tell you first of all about raw materials in last year from January '16 we hardly have raw material purchases from our related parties, the basic RM, styrene and AN we don't purchase from related parties nowadays, so that's is the reason you may be seeing payables to Related party coming down, So other than that if you have other point in mind, please let me know.

- Viraj Kacharia:** It is more to do with payment services the services which we, the royalty and other services, the services which we basically make the payment for?
- Bhupesh Porwal:** So services I don't think there is payment cap. We have been paying roughly quarter to quarter, mostly. . If you compare 2013-14 when we began and now then there may be a difference but I don't think there is a difference in 2015 and 2016 and now. So the payment has been uniformed, no reduction of payable due to the services part basically.
- Viraj Kacharia:** Sir the last question if we look at our overall ABS and specialty business and our polystyrene business, what is the sustainable ROCE we look in this business medium term business?
- Bhupesh Porwal:** I think Sanjiv replied this, in your first question where you were asking about the margins for the specialty. Yes.
- Moderator:** Thank you very much sir. We have the next question from the line of Rohit Lal a Private Investor, please go ahead.
- Rohit Lal:** So my first question is pretty generic question regarding the 3D printing industry. So as far as my knowledge is concerned ABS is one of the core material used in this particular industry, so does our company supply directly to any vendors or 3D printers or is there any demand in this industry?
- Sanjiv Vasudeva:** Are you talking about CD compact Disk?
- Rohit Lal:** 3D printing which uses ABS as plastic components to produce different sort of material, this are for households or general?
- Sanjiv Vasudeva:** 3D printing, right. 3D printing is determinately prototyping right, I think we do supply to our customers, who for example automotive customer may be doing 3D printing when they are doing new part, they buy ABS and instead of investing a big tool and spending a lot of money what 3D printing does is, it cut shorts your cycle of getting lead time on a tool and making that kind of investment so they use 3D printing to make a very fast demo kind of a product, right. So it would be predominately about our customers who would be investing in 3D printing technology, that will move up on the R&D development work, that will be never big volume that will be more for trial and small trial.
- Rohit Lal:** Okay. Sir my second question is regarding polystyrene business, so supreme petrochemicals they have raise the prices of polystyrene by over 10% in the last couple of months. So has there been any similar price rise for our business as well like both for general purpose and the **HIBS 22.00?**

- Sanjiv Vasudeva:** Well we follow our own internal pricing and margins to make our decisions on any kind of pricing. Obviously we do connect in the market what's happening in supreme that's like you are aware, but our decisions are based on our internal profitability target.
- Rohit Lal:** Okay, but have we seen any price rise based on our internal target?
- Sanjiv Vasudeva:** I guess if others move by 10% we should be moving right.
- Moderator:** Thank you sir. We have the next question from the line Ravi Purhoit from Securities Investment Private Ltd. Please go ahead.
- Ravi Purohit:** Just the follow up on the previous one of the previous callers question if we look at our numbers over the slightly longer period of time our EBITDA margins in our return on equity and return on capital employed have steadily come off over the last four years and margins also have been quite volatile, so long term shareholders long term investors what should we really look forward from our company in terms of what it does in India over the next 3 to 5 years in terms of either what kind of return on capital employed we can generate from our business, so if you could just share a bit about what strategy are we adopting towards EBITDA margins either over ROE or ROC over longer period of time.
- Sanjiv Vasudeva:** Look a lot of these also depend on the crude oil and how the crude oil has been behaving up and down in the past. Directionally our net income has been increasing like don't go by 2014-15 that was an abnormal year, as also you can sum up this year number for the first nine months. We are more or less similar to what we were whole of last year, financial year. So overall net income has been increasing, probably you are aware that we merged the polystyrene with ABS business and which has relatively lower margin and that has probably affected our percentage numbers. So that would be the affect that we would be seeing. We see demand in India, India is still a net importer of ABS, so there is a demand and as your per capita income in the country increases the demand for specialized material even will keep increasing so which give us more room to introduce newer products with higher margin and improve our profitability even further. So we do see a bright future ahead improving in terms of improving our profitability with the triple shift strategy that we applied about two years back. We are looking forward for that.
- Ravi Purhoit:** If you could just elaborate a little bit I heard you have mentioned about the strategy couple of times in the call, if you could just briefly touch upon what is this triple shift strategy?
- Sanjiv Vasudeva:** So the triple shift strategy is basically looking at the growth in different industry, the growth in different products, and growth in specific regions and customers, so that's the three pillars of the triple shift. So in that specific industries I gave an example of healthcare, we keep talking about trying to dominant in the automotive segment, penetrate in the segments like healthcare when we talked about products right. We talked about the new products that we are trying to introduced and the product mix. Third is region and customers right. Within India it would

mean if we are tilted to sales towards North with specific segments of customers, I think packaging customers for example would you change the mix two customers in the south for more automotive or for some of the products. So those are kind of three things we are looking at and allocating our resources conducting our commercial team accordingly.

Rohit Purohit:

Any capacity expansion plans do we have what are thoughts on capacity are we likely to be essentially an import driven company? If we look at overall contribution margin level our contribution margins are more around mid-20s, and when you look at value-added chemical companies there are certain products which give you significantly higher contribution margins that around 20s or 25? Because if your contribution margin is only mid-20s it is very difficult to eke out the double-digit EBITDA margin so in that sense just wanted to understand whether we are gear towards setting up manufacturing capacities in India or it is likely to be an import driven business?

Management:

I think directionally the demand in India is growing right. We can debate whether it is growing at the 6% rate of GDP or 9% 10%, so demand is going to grow then number of imports are going to grow, obviously there are like domestic players like our competitors if you look at making expansion, to kind of enjoy and leverage the growth that we are seeing in the country. So economics have to work out because as you mentioned some of the margins at that time may not be pretty. So what would be the right so what's our outlook on the next few years where we can profitably grow the business rather than putting in the capital. So we have been contemplating right moment we will surely let you know.

Moderator:

Thank you. We have the next question from the line of Devendra Jhariwala individual investor, please go ahead.

Devendra Jhariwala:

I have one small question, key as compared to last quarter, our volume and our revenue has decreased, so is there any plan like how we mitigate such type of fear and we have robust revenues growth, once it is robust revenue growth in term of revenue then definitely will impact margins also.

Sanjiv Vasudeva:

We have a pretty unfortunate December, our as we have also put in our investor presentation was a very good start, in fact that was one of our best months, unfortunately November December for all industries not just ours was a big steep and that's what is kind of reflecting in both the volumes and revenue numbers and like I mentioned earlier we see the demand coming back across all industries I gave the two-wheeler example and the automotive example earlier so we have no reason to believe that we will be in the similar situation. Things are looking better for the country in terms of the re-monetization at least and so we hope that worst is all behind.

Moderator:

Thank you very much sir. As there are no further questions I would now like to hand over to Mr. Haresh Khilnani for closing comments. Over to you sir.

Haresh Khilnani: Thank you for attending this call and should you need any further information and clarification please feel free to contact us through email or by calling us and we will be glad to assist you. Thank you so much.

Moderator: Thank you very much sir. Ladies and gentlemen on behalf of INEOS Styrolution India Ltd. that concludes this conference call. Thanks for joining us. You may now disconnect your lines. Thank you.