



“INEOS Styrolution India Limited
4th Quarter FY 17-18 Results Conference Call”

16 May 2018



MANAGEMENT: MR. SANJIV VASUDEVA – MANAGING DIRECTOR & CEO
MR. SANJEEV MADAN – CHIEF FINANCIAL OFFICER
MR. MUNJAL PAREKH – HEAD - CONTROLLING
MR. HARESH KHILNANI – COMPANY SECRETARY & HEAD - LEGAL AND COMPLIANCE

Moderator: Ladies and Gentlemen, good day and welcome to the INEOS Styrolution India Limited's Q4 FY 17-18 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 and Compliance from the management side of INEOS Styrolution.

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 '*' and then '0' on your touchtone phone. Please note that this conference is being recorded.

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

Sanjeev Madan: Dear shareholders, investors, and analyst fraternity, we welcome you to this earning's call.

Your Company INEOS Styrolution India Limited had declared its results for fourth quarter and financial year ended 31 March 2018 on 15 May 2018. We will brief you about the major highlights of the performance.

Kindly note that the Revenue from the operations for period up to 30 June 2017 include excise duty, which is discontinued effective from 1 July 2017 upon implementation of Goods and Service Tax (GST) in India. In accordance with Ind AS 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 financial year ended 31 March 2018, are not comparable with the previous periods.

Regarding the quarterly performance:

Profit before tax (PBT) in January to March 2018 increased to INR 5,040 lakhs as compared to INR 3,881 lakhs in corresponding previous quarter January to March 2017.

The revenue (net of excise/GST) from operations in current quarter increased to INR 51,051 lakhs as compared to INR 39,765 lakhs in January to March 2017. However, on gross basis including excise duty, revenue was INR 44,931 lakhs in previous corresponding quarter.

Profit before tax (PBT) in January to March 2018 is INR 5,040 lakhs as compared to INR 2,283 lakhs in October to December 2017.

Revenue from operations in current quarter is INR 51,051 lakhs as compared to INR 45,304 lakhs in October to December 2017.

Regarding year-to-date performance:

Profit before tax in current financial year is INR 10,313 lakhs as against INR 10,030 lakhs in previous financial year.

Revenue increased from INR 1,66,918 lakhs in previous financial year to INR 1,95,069 lakhs in current financial year. However, revenue net of excise duty increased from INR 1,48,235 lakhs in previous financial year to INR 1,89,534 lakhs in current period.

Segmental results:

Specialties: Profit before tax, interest, and other un-allocable expenditure is INR 4,590 lakhs in current quarter as compared to INR 2,438 lakhs in previous quarter.

Polystyrene business: Polystyrene's profit before interest, tax, and other un-allocable expenditure is INR 641 lakhs in current quarter as compared to INR 69 lakhs in previous quarter.

So, this is about the clarification and details about our financials. We can go forward for the queries for any clarifications which are needed.

Moderator:

Thank you. 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. If you wish to remove yourself from the question que, you may press '*' then '2'.

The first question is from the line of Sudarshan Padmanaban from Sundaram Mutual Fund. Please go ahead.

Sudarshan Padmanaban:

Sir my question is, around the long-term contracts that we have, I mean earlier you had mentioned that we normally enter into a long-term contract to have visible business. Last year has been very good for the ABS business in terms of spread, we had some kind of lost opportunity on account of getting into the long-term contracts, what I am trying to understand here is with the new financial year, have we reset the long-term contracts and if you can give some idea with respect to what is the kind of contract that we had entered into and the spreads that we can expect in FY 2019?

- Sanjiv Vasudeva:** Good afternoon. Our contracts are typically for one year. As you know that Styrene is not made in India, it is imported, so is Acrylonitrile and BD, you have little BD in India which we can get from some of the local suppliers like Indian Oil Corporation, Haldia Petrochemicals; so when we are sourcing all these materials from global suppliers, typically we would get into a six-month or a yearly contract. The price mechanism is formula based and it is tied to different basic raw materials and about the spread, the market prices of some of those raw materials go up and down based on those formulas, our prices also go up and down with the supplier. In principle it is a one-year contract, but the prices will change on a monthly basis depending on the formula pricing that you have with the specific supplier.
- Sudarshan Padmanaban:** Sir, but last year if I am looking at the kind of spreads which the competitors are making and the kind of profitability that you are making, if there was a one-month kind of reset clause, you should have actually captured a substantial amount of the uptrend in terms of the profits or the spreads, but somehow I think we were not able to report that kind of a jump in numbers?
- Sanjiv Vasudeva:** Well, I do not comment about competition, but in our case like I mentioned, we have seen different prices of raw materials depending on the specific month and typically our average cost of goods sold is in line with the global players.
- Sudarshan Padmanaban:** Sir, last year versus this year, if you can give some direction with respect to how the profitability would move especially on the gross margins side, because last year was very good in terms of the spreads which were moving up, I mean do we see the spreads benefiting us this year or do we see similar kind of margins on the raw material side?
- Sanjiv Vasudeva:** Directionally, from a volume perspective we are still looking at a double digit growth, the ABS market in India and plastics in general is growing pretty well and so are the segments, so the demand is there for sure. We also see a good profitability in the first four months of this year and our outlook for this quarter also is positive. For us to predict for the whole year may be a bit difficult, but from what we have seen in the last four months, things are shaping up well for the business.
- Sudarshan Padmanaban:** Do we source part of the raw material from our sister concern or parent?
- Sanjiv Vasudeva:** No, we do not. We only take some specific grades that we cannot manufacture, but those are finished goods, but that is a very small percentage of our total revenue numbers, so probably 2% to 3% of finished goods is what we source from our sister company.
- Sudarshan Padmanaban:** Sir, just the final question from my side, what is the update on the capacity expansion program, I mean are we in line with the timelines and how much is the spend if you can reiterate it?

- Sanjiv Vasudeva:** I just want to correct my previous statement, so the 2% to 3% is the finished goods is what we source from our sister company in Europe and in Asia. We also source rubber raw material from our sister company and that is a good percentage of our raw material consumption for rubber, so 20% of our rubber consumption is what we sourced from our sister company in the last one year, so let us just go to your next question.
- Sudarshan Padmanaban:** Sir, about the CAPEX, the timelines and the amount, are we in line with what we had initially stated and what would be the spend that we are expecting?
- Sanjiv Vasudeva:** We announced in the last AGM that we would be expanding our compounding capacity and that the project would be operational by Q1 which is April to June 2019, we are pretty much on track on that project with the right kind of spending, we track our specific spending of the whole project and it is very much in line with our expectation.
- Moderator:** Thank you. We take the next question from the line of Punit Kumar from Reliable Investments. Please go ahead.
- Punit Kumar:** Mr. Sanjiv, this question has four parts. First question is that the profits have dropped.
- Sanjiv Vasudeva:** Drop in profit vis-a-vis what?
- Punit Kumar:** Vis-a-vis last year, this year profits are lesser than last year?
- Sanjiv Vasudeva:** Well, based on the financials we do not see that.
- Punit Kumar:** 37.6 EPS versus 39.4, I do not know how do we say that the year has been good, it has been a bad year ?
- Sanjeev Madan:** Our EBITDA is INR 103 crores in this year as compared to the last year INR 100 Crore
- Punit Kumar:** What you say is the tax does not make any difference?
- Sanjeev Madan:** After the taxation, it has reduced from INR 69 crores to INR 66 crores which is primarily because last year we had MAT credit and we earlier had acquired polystyrene business wherein we had carried forward loss, which were being set off and now those have already been set off in the last year, so the effective tax rate is coming up as per the current year inline with current Corporate Direct Tax rule.
- Punit Kumar:** Number two is return on net worth is the lowest being given by any of the multinationals in India, 2.2% earning per share divided by book value of the share, this is what we are making for the shareholders?

- Sanjiv Vasudeva:** As of now, yes that is the way we are depending on our profitability.
- Punit Kumar:** Historically, for the last 10 to 15 years data which I have sent to Mr. Madan, he said he will be responding but is yet to respond, same has been continuing for the last 10 to 11 years.
- Sanjeev Madan:** Yes, Mr. Punit I think we spoke earlier as well that the last 10 years data if you will see, the compounding growth of SIL as compared to the compounding growth of the Indian economy and the industry, our average growth is more than 10% in revenue, that is what I have explained earlier, but yes we can discuss with you off-line as well, if you are still looking for further clarification.
- Punit Kumar:** Rs. 4 return on investment of 366 book value, retained earning plus Company money of the shareholders, you are only giving Rs. 4.
- Sanjiv Vasudeva:** I think you said that our profit has not increased, is the same, correct?
- Punit Kumar:** Correct.
- Sanjiv Vasudeva:** Depending on the profit, we would allocate the dividend accordingly, so as and when we make more money as a company, we will surely consider more dividend, that is one.
- Punit Kumar:** Mr. Vasudeva you are making Rs. 37 and retaining Rs. 33.
- Sanjiv Vasudeva:** Secondly, we are also investing in the Company. We talked about it, I am not sure if you have heard in the previous call, last year in the AGM we talked about investing up to \$ 20 million split in two parts. First part was adding compounding capacity of 35,000 tons, which costs money. The second part we are spending a few million dollars on doing the engineering study for expansion of our SAN and rubber plants. All this money the Company is investing and hence we wanted to keep a similar level of dividend as we are using the money on the Company to make this investment. In the future, as these capacities come into play and we make more money, we can surely consider increase in the dividend.
- Punit Kumar:** Last question, the 138 crores you have invested in other non-current assets, statements of assets and liabilities on margin, Mr. Madan?
- Sanjeev Madan:** This is basically, Mr. Punit, reclassification from the last year of the GST amount. Last year it was shown as the current assets and in the current year it is being divided into the current assets and the non-current assets as per Ind - AS. If you will put the amount together along with current assets, excise receivable amount has been reduced as compared to last year. Now GST is implemented and we are able to actually start reducing and utilizing the old recoverable balances.

- Punit Kumar:** So Rs. 138 crores you have put in which, GST advance?
- Sanjeev Madan:** In the earlier regime, due to custom duty structure, this amount was lying in excise receivable which was to set off against the output liabilities, so now after implementation of GST, it is giving the Company advantage to utilize old credit balance.
- Moderator:** Thank you. The next question is from the line of Mayur Matani from ICICI Securities. Please go ahead.
- Mayur Matani:** Sir, I had one question regarding the profitability, does it include any inventory gains during the quarter?
- Sanjiv Vasudeva:** I think that is a good question, we did not have a lot of inventory gains this quarter, but if some of you may remember last year Q1 which was April to June, we had a lot of inventory loss and last year in January to March we had lot of inventory gain, so I think one of the previous Gentleman also asked the question, our profitability is not more than last year, but we are comparing bit of apple and oranges because, in the last financial year, we had inventory gains while this time we did not have that, so if you compare apple to apple, the profitability would have been in a double digit growth.
- Mayur Matani:** Can you share how much inventory gain we had in the previous year corresponding quarter if possible?
- Sanjiv Vasudeva:** I think it was around 20 crores.
- Mayur Matani:** This quarter, what is the value for the inventory gain?
- Sanjeev Madan:** This quarter it is 5 crores versus 22, so you can do the Math.
- Mayur Matani:** Sir, seeing that the performance has significantly improved I think both in ABS and polystyrene segment, so do you think that the profitability has improved due to the mix or is it anything else?
- Sanjiv Vasudeva:** The profitability has improved, it is a combination of mix, combination of volume growth as also reflected in the revenue, but revenue you can always question, it depends on the prices of the ABS and polystyrene in the market, so I would rather talk about the volume growth and the true profitability growth, so volume has grown as you see good double-digit growth on the volumes, the product mix has grown and we have been able to more or less been keep our cost under control.

- Moderator:** Thank you. The next question is from the line of Niket Shah from Motilal Oswal Mutual Fund. Please go ahead.
- Niket Shah:** I had two questions, first is if you can just quantify how much is the special grade to the higher grade of our total revenues in percentage, that is point number one, which obviously will have higher margin, and second is within the new capacity expansion that we are doing, how much percent of that new capacity will be dedicated to those special grades?
- Sanjiv Vasudeva:** Firstly, we do not disclose the specific percentage of our special grades and it depends what you call special because it is a very relative term. Our average margins are pretty good, it is more than the industry standard that is what I can tell you, our average margins are higher than some of the industry standard for ABS, so that should answer your first question. The second question was around new capacity, so could you repeat your question again?
- Niket Shah:** What I mean by special grade is that for example in the normal ABS sales let us say Rs. 150 to Rs. 170 a KG and a special grade would be like in northwards of Rs. 200, Rs. 250 or Rs. 300 a KG, so that kind of differentiation if you can just give us some sense if not percentage?
- Sanjiv Vasudeva:** We are predominantly into special ABS and that is because ABS you can make in different ways, you have work collaboration where you have bulk 200,000 to 300,000 ton kind of a plant rating very standard few grades, we are not into that business, so what you read in some of the data are prices for those kind of ABS grades. We make more custom-made, our complete volume of ABS that we sell is into custom-made grade and there we have several levels of margin depending on the grade, so in principle we call the whole thing as specialty ABS.
- Niket Shah:** For the new CAPEX also bulk of that capacity will go into specialty grades because there is a supply constraint in the market and the bulk of them is also imported?
- Sanjiv Vasudeva:** That is absolutely correct, that is the way we are adding the capacity for.
- Moderator:** Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.
- Ronak Morjaria:** Sir, just wanted to understand that now with currency INR depreciation, because I think lot of our inputs are imported, so will we be able to pass it onto the end customer since we have a long-term contract with our clients as you mentioned initially that one-year contract?

- Sanjeev Madan:** That is in our quantity contract what we are talking about, but our contracts consider price plus exchange fluctuations that are happening and that is being passed onto the customer as per our contract, so as per that maybe there would be a short-term impact, but on the long-term there will be no impact as we have been passing to the end customers, considering gains and losses both ways.
- Ronak Morjaria:** What would be the lag as in three months, one month?
- Sanjiv Vasudeva:** Generally before one month.
- Ronak Morjaria:** With respect to crude prices, they have gone up, so raw material prices would also go up along with those prices, so we will be having a double impact, so even that is passed on?
- Sanjiv Vasudeva:** Not all raw materials are directly linked to the crude prices. I understand, crude going from 60 to 80 kind of a number, you may not see that level of 30% increase in all our raw materials of styrene, Acrylonitrile, butadiene some of them may have 10% increase and they may go up and down, so it is also related to the individual capacities that you have for those derivative products, but directionally if crude goes from \$ 50 or \$ 60 to a \$80 or \$ 90, you would see a uptick in all your raw materials as well.
- Ronak Morjaria:** Even that would take a month or some time for us to pass it on to the end customers?
- Sanjiv Vasudeva:** No, not really, I think for some contract customers that would get settled in the very next month, but we also have direct business with other customers. There it is more of a weekly kind of a gain and loss that we can have.
- Moderator:** Thank you. The next question is from the line of Nishna Biyani from Prabhudas Lilladhar. Please go ahead.
- Nishna Biyani:** Just wanted to have a view that when can we see double-digit margin for the full year again?
- Sanjiv Vasudeva:** We are investing in our capacity in compounding as you know we are halfway through, we have also started engineering studies for both SAN and rubber since last year and as and when these capacities come up, I think we will be in a very good position, so three years down the road we will surely be in a much, much stronger position. However, having said that, we will in the interim keep working on our product mix and to improve our margins even further.
- Nishna Biyani:** So we have to wait for three years to see the efforts?
- Sanjiv Vasudeva:** We continue to work every month to improve our margins.

- Nishna Biyani:** Sir, how does our business differ from our key competitor Bhansali in terms of the business how do we do it differently and what do they do differently?
- Sanjiv Vasudeva:** I cannot comment on what they do differently. Our raw material costs are pretty much in line plus or minus couple of percent with the global raw material prices and I think that is one of the key differentiator between us and the specific competitor you are talking about, so I cannot comment what they do, all I can say is our percentages are in line with the market for the raw material.
- Nishna Biyani:** Just looking at the turnover part of it, when we are doing two times sales what do they do almost and when I look at the profits, what we generate and what they generate in the last two years, I was just wondering that where the improvement needs to be done, that was one introspection which the company needs to do inside and any impact of INR, Sir, the recent movement imported inflation, can that get, how do we get impacted by that?
- Sanjiv Vasudeva:** I think to answer your first question around the double the revenue and all, I think if you look at the segments we have two kind of products, specialty ABS and we have polystyrene, so we are comparing Apple and oranges when we compare our complete business with Bhansali's business. Our business is to be compared between part with Bhansali and a part with Supreme and some of the other players, LG and all, so that is where some of the difference lies and sometimes the confusion lies because we have looked at only at ABS supplier when compared with Bhansali, so that is one part. On the exchange rate as Sanjeev mentioned, our formula-based pricing with our customer or even with the raw material supplier have the element and we do not see a much impact of exchange rate fluctuation because we pass it on both ways.
- Moderator:** Thank you. The next question is from the line of Ritika Garg from Equitas Investment. Please go ahead.
- Ritika Garg:** Sir, could you tell us the current capacity utilization?
- Sanjiv Vasudeva:** I cannot share the exact number, but the capacity utilization numbers on the ABS side are very high surely North of 80% to 85% and the capacity utilization for polystyrene is much lower than that, in the range of 60% to 75% depending on which company you are talking about.
- Ritika Garg:** Could you tell me the CAPEX that we are doing is in which segment?
- Sanjiv Vasudeva:** It is in the specialty ABS segment.
- Ritika Garg:** How much is the CAPEX?
- Sanjiv Vasudeva:** It is close to 130 crores.

- Ritika Garg:** For 35,000 tons?
- Sanjiv Vasudeva:** And engineering studies for the expansion.
- Moderator:** Thank you. The next question is from the line of Vinay Arya, an Individual Investor. Please go ahead.
- Vinay Arya:** What I wanted to know is that you talked about the pricing mechanism of raw material based on the weekly and monthly contracts, so if we talk about the ABS industry as a whole in India is the pricing done in a similar manner across the industry, is it an industry standard broadly give or take some minor changes in the pricing contracts or there is a lot of difference?
- Sanjiv Vasudeva:** I think if you see the ABS market, there are two local supplier, us and another one and the rest 40% of the demand is imported, so you can imagine imported one's have to be kind of because there is a lead time associated with it, so no one would take currency fluctuation risk for the raw material a swing risk so that has to be on contract or monthly formula based, that talks about 40%. A good portion of our business is also contract based. I cannot talk about the local competitor, I can just give you the logic that the import has to be more contract based, otherwise, it is difficult.
- Vinay Arya:** This takes care of both the currency fluctuation possibility as well as the crude fluctuation possibilities as well, is it?
- Sanjiv Vasudeva:** Yes, I mean contracts are designed in such a way, so your contracts are based on the raw material, because every raw material is based on a raw material, so along with FX, exchange rates are all part of the formulas which I use and apply it on a monthly basis with the supplier and same we do with our customers.
- Vinay Arya:** What I wanted to understand was actually in the entire value chain, is a price transfer relatively well done so that nobody takes on?
- Sanjiv Vasudeva:** Yes, both ways.

Moderator: Thank you. Ladies and Gentlemen, that was the last question. I now hand the floor over to Mr. Haresh Khilnani for closing comments.

Haresh Khilnani: Thank you all for attending this earnings meet and should you have any further questions or you need any clarifications, you can definitely contact us on phone or email and we will do our best to communicate with you. Thank you very much and have a nice day.

Moderator: Thank you very much, Sir. Ladies and Gentlemen, on behalf of the management, I conclude the conference. Thank you for joining us and you may now disconnect your lines.