



## “Styrenix Performance Materials Limited Earnings Conference Call”

**February 15, 2023**



**MANAGEMENT: MR. RAKESH AGRAWAL – CHAIRMAN AND WHOLE  
TIME DIRECTOR, STYRENIX PERFORMANCE  
MATERIALS LIMITED  
MR. RAHUL AGRAWAL – MANAGING DIRECTOR,  
STYRENIX PERFORMANCE MATERIALS LIMITED  
MR. SANJEEV MADAN – CHIEF FINANCIAL OFFICER,  
STYRENIX PERFORMANCE MATERIALS LIMITED  
MR. ABHIJAAT SINHA – COMPANY SECRETARY,  
STYRENIX PERFORMANCE MATERIALS LIMITED**

**Moderator:** Ladies and Gentlemen, Good day and welcome to Styrenix Performance Materials Limited Conference Call. We have with us today from the management of Styrenix Performance Materials Limited Mr. Rakesh Agrawal – Chairman and Whole Time Director, Mr. Rahul Agrawal – Managing Director, Mr. Sanjeev Madan – Chief Financial Officer and Mr. Abhijaat Sinha – Company Secretary.

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 telephone. Please note that this conference is being recorded.

I now hand the conference over to Mr. Sanjeev Madan. Thank you and over to you, Sir.

**Sanjeev Madan:** Thank you. Dear shareholders, investors and analyst fraternity, we welcome you to this Earning Call. Your company Styrenix Performance Materials Limited has declared its Results for 9 months ending December 31st, 2022, on 13th February 2023.

**We will brief you about the major highlights of the performance regarding quarterly performance:**

Revenue net of GST from operation in current quarter is INR 557.2 crore as compared to INR 550 crore in July to September 2022 and INR 511.9 crore in October to December 2021. Profit before tax in the current quarter stands at INR 40.4 crore as compared to INR 32.4 crore in July to September 2022 and INR 73.4 crore in October to December 2021.

**Now regarding year-to-date performance:**

Revenue net of GST from operation stands at INR 1,757 crore in 9 months ended December 2022 as compared to INR 1,555.1 crore in 9 months ended December 2021. Profit before tax for 9 months ended December 2022 stands at INR 188.7 crore as compared to INR 312.5 crore for 9 months ended December 2021.

**Now regarding quarterly segment performance:**

**Specialties:**

Profit before interest, tax and other unallocable expenditure stands at INR 30 crore in current quarter as compared to INR 34.3 crore in July to September 2022 and INR 56.5 crore in October to December 2021 and profits for 9 months ended December 2022 stands at INR 134.4 crore as compared to INR 232.5 crore for 9 months ended December 2021.

**Polystyrene:**

Profit before interest, tax and other unallocable expenditure stands at INR 11.5 crore in current quarter as compared to INR 1.73 crore in July to September 2022 and INR 18.4 crore in October to December 2021 and profits for 9 months ended December 2022 stands at INR 63.9 crore as compared to INR 81.6 crore for 9 months ended December 2021. So, this is all about the clarification and details about our financials.

Now we can go forward for the queries or any clarifications required or which are needed. Thank you.

**Moderator:** Thank you very much. We will now begin the question and answer session. We have our first question from the line of Rushabh Shah from RBSA Investment Manager. Please go ahead.

**Rushabh Shah:** Sir, we have recently acquired this company so if you can just brief share what is your game plan for the next three, five years why did you acquire this company, it will be very helpful for us to understand your perspective?

**Rahul Agrawal:** So, as you might have read about the history of this Company it was founded by my father Mr. Rakesh Agrawal who is the Chairman and he is also actively involved in the business right now. There is a lot of knowledge and understanding of this business for the last 40 years that we have. We believed when the opportunity came to acquire this business we believe that we can add considerable value to this business going forward and we also believe that in terms of both the product segments or both the areas where this business operating in and there is an extremely bright future in terms of potentials. So, keeping that in mind we have acquired this company.

**Rushabh Shah:** In the presentation that has been shared it was mentioned that we are looking at developing new products also so if you can just share what new products are we looking at, what is the market size, what kind of return ratio you target sir?

**Rahul Agrawal:** Just to give a brief idea about the market so currently if you look at the specialties business we are operating in the automotive sector, we are supplying to consumer durables, electronics, electrical sectors. All these sectors are experiencing significant growth as you know there is a huge growth in the EV segment where a lot of our materials are used and also some additional products would be used in those segments even in consumer durables there is a significant push by the government with the PLI schemes and there is also a lot of capacity building which is happening currently which is going to add to significant further demand not only for the existing products where we are operating, but also for additional products which are related to our product line. We are still in the process of identifying and commercializing these products so it will be premature to speak about that, but we do believe that with our current participation and market position with our existing customer base as well as new customers in these product segments that we are well positioned to take full advantage of the growth that we foresee.

- Rushabh Shah:** Just one clarification sir whatever products is in this company and say whatever new products you plan to add into going forward, is there any concept of interest within other Asia group companies because they believe there are lot of group companies also under Shiva Groups, so I just want to please understand verify in this?
- Rahul Agrawal:** There is no overlap in the product profile between the products of this company and other group companies.
- Rushabh Shah:** In terms of raw materials on this do we get any raw materials from the companies or are you going to sell to any offer in a group companies from that angle also?
- Rahul Agrawal:** In terms of raw material there could be some so most of the raw materials which are purchased by Styrenix or commodities and at least the bulk raw materials and of course there are specialties and additives and auxiliary chemicals that we buy, but from the commodities that we buy and also in some specialties there could be similar products that we are purchasing in other group companies. So, to that extent that would exist, but in terms of any kind of relationships with regards to buying and selling up products there is no significant products which should overlap in the buying and selling between group companies.
- Rushabh Shah:** And sir if you could clarify how much is the capacity utilization as on December for all across product lines?
- Rahul Agrawal:** So, I think in the investor presentation it has been mentioned that the capacity of the specialties business is about 1,000 tons and for the polystyrene it is about 78,000 tons. The capacity utilization we have to see a full year of performance frankly to understand where we stand and only after we run it we will know because it has been essentially 45 days since we have taken over the business. So, we will be able to answer that question in time to you, but currently the capacity utilization is around 70% roughly.
- Rushabh Shah:** And just one last question from my side you also mentioned in the presentation that there are various cost reduction initiatives so I understand it is very short, but so far whatever you have seen is there significant scope to improve margins on the cost front?
- Rahul Agrawal:** So, we do believe there is a lot of opportunity as I already mentioned in terms of capacity utilization there could be potential opportunities for us if we are operating right now say at around 70% and that in itself would improve the efficiencies of the business and reduce or dilute some cost. Furthermore, we are studying and evaluating and prima facie we do believe there are several areas where there could be potential significant cost saving.
- Moderator:** Thank you. We have our next question from the line of Vaibhav Badjatya from Honesty and Integrity Investments. Please go ahead.

**Vaibhav Badjatya:** I just wanted to understand that you have obviously taken over this company, but on the other side what was the motivation that the seller was looking to sell and why they exited the business, what kind of issues they were seeing in this or what was their strategic consideration that they wanted to sell this business?

**Rahul Agrawal:** I am not in a position to answer exactly why a seller does what they do. I can give you the observation that we have to buy the business which I have explained in my previous answer, but it is almost impossible because it will be speculative in nature for us to assume the reasons for which certain seller does sell the business.

**Vaibhav Badjatya:** And from a longer term perspective I do not know as of now where you have gone through the very detailed strategic review, but apart from ABS do want to enter into any new areas of business or would you like to continue with this over the next three to five years?

**Rahul Agrawal:** So, we believe Vaibhav that there is a present opportunity which is going to remain in the foreseeable future to obviously have a larger participation in the overall markets of the products that we are present in. So, those are opportunities which should be first addressed. With time like I mentioned the segments that we are serving and the customers that we are providing products to have requirements for other products and other areas for which also we have started evaluation. So, I think in a phase-wise manner we would look at first being able to have a larger presence in the products we are already present and then furthermore add to that portfolio to have a larger basket of products for our customers.

**Vaibhav Badjatya:** This is much more long term structural thing I want to understand we have seen lot of fluctuations in the product prices ABS competition from China there are some other players all of those things are going on, but this improvement in margin that happened for the business that happened just after COVID hit and there were lot of supply chain disruptions before that the margins were not really good, so what is it with some of the Chinese players which makes them really competitive in this market and how it is going to change in future is what I wanted to understand?

**Rahul Agrawal:** It is difficult to predict what will happen in the future because in terms of the demand supply scenario in India is of course unique in its own way because of the nature of products and nature of grades which are sold in India. It does not necessarily fully replicate how products the same type of products ABS or SAN or any other products are sold in other parts of the world. However, we are not isolated from the world and what happens in terms of a demand supply scenario in the rest of the world will have some impact in India as well which we will see from time-to-time. However, our fundamental premises that the underlying demand in India is strong. We also believe that the demand in India will grow because of the segments which I already mentioned in the first question that I answered and we believe that we are well placed with the brand equity of our products and our positioning in the products in terms of quality and recognition to take

full opportunity of that growth. So, I think in terms of going forward at least we do believe which is to do better than the competition.

**Moderator:** Thank you. We have a question from the line of Ashwin Reddy from Samatva Investments.

**Ashwin Reddy:** Sir I have few questions sir firstly could you expand further on the comment that we just made about the unique market structure in India and different grades that are sold, I am just curious to see how was the market in India different from the market elsewhere?

**Rahul Agrawal:** If you look at the Indian market; Indian market the applications like I said large application say for the ABS market again that I am answering is for automotive, for consumer durables, electronics, lot of these products use ABS again in the Indian market condition like say in two wheelers or even four wheelers or whatever and Indian weather conditions and Indian used conditions are always unique. So, in terms of what the requirements are, in terms of customization of the product will always be pertaining to how and where that product is used or that component is used. So, in fact and those are the segments where for customization even Styrenix for that matter or in its previous avatars have always been the preferred product choice because in terms of customization that they have been able to provide, it is unique to their specific application that they need. If you look at other parts of the world that level of customization may differ or may not be necessary again depending on which country you speak to, there are many countries which have their own individuals sets of requirements. So, it is hard to speak on each of those, but India obviously will have its own unique requirements and hence require customization for those application.

**Ashwin Reddy:** So, usually how long is your sales cycle and how long is the usual contract that goes on for, how is it structured because of this scenario?

**Rahul Agrawal:** In most cases in terms of sale cycle it depends again on the specific customers, specific product grades, specific applications, sensitivity of the component which is being produced from that particular grade. So, it could again be 6 months to 2 years or even longer. So, we do not know, it depends on how much of testing is required at the customer end as well as at our end kind of grade wise and phase wise testing to ensure that the product is the most suited so that is one thing. I am sorry what was your second question.

**Ashwin Reddy:** So how long is the usual contract period for how long do the customer gone?

**Rahul Agrawal:** So, typically contracting is again there are different types of contracts lot of those contracts this confidentiality around those contracts so I cannot give lot of details about those contracts so that we have with customers.

**Ashwin Reddy:** I cannot understand is it like short term, long term, how does it work?

- Rahul Agrawal:** Generally these are fixed annually with customers at least around some kind of a volume or supply surety of supply, reliability that they can derive from us and it is basically it is a percentage of our overall revenue breakup that we would do.
- Ashwin Reddy:** So, how would the price hike be structure because your raw materials are going to depend upon crude, so given the volatility there how do you structure the price hikes or the price changes based on the raw material changes?
- Rahul Agrawal:** So, a lot of the contracts majority part of the contracts would have a formula in built and the formula would account for pricing of raw materials which are transparently available by way of publications and our own pricing for buying up of those raw materials would also be dependent on the similar publication. So, essentially it would be a pass through if you will from what we buy the raw materials and then in terms of what we would charge to the end customers.
- Ashwin Reddy:** So, in terms of the royalty so would we have to pay royalty on the current products or is there any R&D that you are using from the previous seller or is it is completely clean slate and there is a royalty payment which is involved?
- Rahul Agrawal:** Yes there is no royalty involved and there is no R&D support required either.
- Ashwin Reddy:** So, this is for both existing products and for the new products you would not need any R&D support for that?
- Rahul Agrawal:** Correct.
- Ashwin Reddy:** And how do you see about the competitive intensity because Supreme Petrochem has tied up with a foreign player for putting up a large ABS capacity would they be competing with you or they are in different segments completely?
- Rahul Agrawal:** So, broadly speaking there are two technologies for ABS in the world. You are referring to their ABS announcement right.
- Ashwin Reddy:** Correct.
- Rahul Agrawal:** So, broadly there are two technologies there is a ABS technology which we are using and the ABS technology which Supreme is proposing to put up the plant with these are different technologies and there are some nuances in terms of what kind of product can be made and what kind of application they can be used. I do not want to comment too much on what our competitors are doing or what our potential competitors are doing it would not be right for me to do that, but specifically about the product grades made from the technology which is being suggested we do believe that we have a sound business skills going forward inspite of that competition coming online.

**Ashwin Reddy:** And my last question is on the polystyrene part of the business which is right now 30% of your overall business, so globally is that we have to move away from polystyrene to polypropylene and how should we think about the growth of this business for you in the next four, five years?

**Rahul Agrawal:** If you look at the polymer chain whether you talk about polyethylene, polyvinyl chloride, polyethylene, polypropylene or any of the polymers, each polymers has its own place and its application based on what properties that product offers. One can argue at specific points in time, there could be cannibalization or substitution of one polymer with another, but each polymer does have its space firmly within the industry and specific uses. So, we do not see any significant or any threat in terms of substitution of this product by polypropylene like you mentioned which is of significant nature.

**Ashwin Reddy:** So, overall in terms of I know it is too early right now for you to give any numbers, but say over the next four, five years what kind of a growth if you do not do will kind of disappoint you for next four, five years some broad numbers I am not actually specific, but any broad numbers what kind of growth would you want to aspire what is opportunity though?

**Rahul Agrawal:** So, it would be speculative in nature.

**Rakesh Agrawal:** The thing is you can understand that today 50% of demand in the country is being served by the imports number one. Second thing the industry is growing almost at the level of 7% to 8%. So, we have to be part of the competition so growth will always take place. So, to assign any number right now it will be too premature.

**Moderator:** Thank you. We have the next question from the line of Sushital from an Individual Investor. Please go ahead.

**Sushital:** So, I just want to understand whatever low hanging fruits that you initially want to focus on after your takeover?

**Rahul Agrawal:** So, like we have mentioned in our investor presentation we believe there are certain efficiencies that we see in business. Obviously, in terms of fully utilizing our capacities and improving productivity is another one which we are looking to address and finally also there is products or grades which can be developed in a short period of time where we are using our R&D center I am using our capabilities in terms of our overall infrastructure we will be able to tackle. So, these two or three areas keeping in mind the new applications which are growing significantly whether it is EV or it is consumer durables or household appliance, we do see an opportunity to have a more active role over there with existing and new products. So, those are some of kind of low hanging fruits if you will which we can tackle in the short to medium term.

**Sushital:** Have we squeezed any unpleasant surprises post takeover like do you see any pending clean up or write off in coming quarters or any kind of litigations or anything post takeover?



- Rahul Agrawal:** No we do not see any such thing again it has been 45 days and based on the due diligence we carried out, we have not come across any.
- Sushital:** And also you are seeing any kind of attrition in the senior management or you are seeing any change in the senior management or can you just like throw a light on the manpower what your strategy looks like?
- Rahul Agrawal:** So, I think in terms of the team that we have it is a very robust team which is handling the business obviously with any change of management comes certain challenges which one has to face, but we believe that these challenges are not significant at least from a management perspective and team perspective and we believe that we are in a very good space to very quickly transition in terms of what we need to achieve with this company.
- Sushital:** And just wanted to understand was on the ABS part of your business I think how do you see growing in the next three, four years also the margin dipped versus the last quarter, so what can be the steady state margin for this business?
- Rahul Agrawal:** Again difficult to say right now it would be little speculative for me to answer exact number, but we do believe that with the efficiencies that we would like to bring in terms of some fixed cost dilution with hopefully better utilization of capacities and better efficiencies we will be able to see fairly decent kind of margins in this business.
- Sushital:** My last question is I think a holding company of Styrenix was in the same phase probably more in the trading so potentially like do you see a merger these two businesses subsequently down the lane or any thoughts on that?
- Rahul Agrawal:** No, nothing for now.
- Moderator:** Thank you. We have our next question from the line of Abhishek Lakhani an Individual Investor. Please go ahead.
- Abhishek Lakhani:** I would like to ask my question as we have seen a spike in the volume of pledged shares almost 100% one of the reason also to ask this question is the current market scenario, can we see a gradual decrease or invocation of this pledged shares in the near future?
- Rahul Agrawal:** In terms of pledged shares as you realize the transaction which has happened in the last few months and as per transactional requirements certain things have been done. We believe that over a short to medium period of time difficult to specify exactly what that time period would be we would see a gradual reduction as you are correctly predicting.

**Abhishek Lakhani:** Also my second question is that with the restriction on the single use plastic in many state what impact do management sees in the revenue in percentage terms, what ecofriendly or alternatives have we planned for that ban also?

**Rahul Agrawal:** So, I think from between the two businesses on the specialties business there is zero impact and on the polystyrene business also we are not present in a large part of a business which would be single use plastics. I think from overall perspective I think the impact is almost close to NIL or very negligible.

**Abhishek Lakhani:** My last question is on what we can expect the dividend payout ratio or is the company planning for any capital expenditure?

**Rahul Agrawal:** So, right now we have our work cut out in terms of what we need to do for improving efficiencies and doing what we can in terms of the low hanging fruit which was mentioned in the earlier question. So, once we tackle that I think we can go to the next stage, but it is little premature to answer when and how that will happen, any kind of questions or thoughts on dividend also are premature because we have taken no decision on that as of now.

**Moderator:** Thank you. We have our next question from the line of Gautam Bahal from Mauryan Capital Private Limited. Please go ahead.

**Gautam Bahal:** Sir, Mr. Rakesh Agrawal had mentioned in the initial press release of vigorously expanding capacity here and I suppose that is because you see an import substitution opportunity, so would you like to comment on where do you see sort of growth CAPEX going in would it be Brownfield, what kind of return matrix you see on the growth CAPEX any comments on that?

**Rakesh Agrawal:** See it is right now very difficult as MD has already suggested that currently there are low hanging fruits I mean the efficiency currently utilizes only 70%. We believe that utilizing the current facilities itself there is a reasonable scope to increase productivity as well as the total productions. First we are exploring on all that, but going forward as you know I mean philosophically wise we can say that today only 50% of the demand is being catered by the local supplies 50% being imported and normally all these customers I have been in the market for last two, three months they will always prefer a local material rather than being dependent upon the imported materials. So, give us an opportunity. Today, it is too premature to say that when and what we will do and what we will do that, but obviously this is a situation in front of us and we are going to exploit the situation and we will be keeping you informed and to the stock exchanges in times to come.

**Gautam Bahal:** So, we see before any proper growth CAPEX I guess you see a lot of debottlenecking opportunities, etc.?

**Rahul Agrawal:** Absolutely.

**Gautam Bahal:** Just for me to understand philosophically like when you say this import substitution opportunity and local customers preferring your products, is that also because you are sort of lower cost producer versus imported products in the final cost or is it just because of better customization that you offer?

**Rahul Agrawal:** I will quickly answer your question so there is like I mentioned you have thought rightly about the customization part for a lot of components or parts it is very difficult to replace and substitute with any product other than the product that they have been using. So, that itself becomes a challenge. So, unless there is a significant business scale for our customers they are not inclined to do or make those kind of changes. I believe that if we have better supplies in place there is no reason for a lot of applications for that substitutions are happened while in the entire market there could be some cases yes where obviously price does play a role and if global demand supply matrix do put pressure on pricing that could have an impact, but of course that is only a fraction of the markets.

**Gautam Bahal:** And sir given your sort of long history in this industry like where would you say we are in the commodity cycle here as we stand in terms of spreads for you guys?

**Rahul Agrawal:** So, you know, the things have become much more volatile in terms of commodity cycles if you will I am not sure if I want to categorize all our products as commodities, but if you look at commodity cycles it has become hard to predict due to international events and international scenarios like I said what happens in different parts of the world does impact us to some extent because we are not isolated. So, whether it is COVID in China or opening up of China or it is war in Ukraine or in terms of energy cost or you look at other demand supply factors globally they do have an impact, but these event seems to be much more volatile and that much more difficult to predict. Hence, also equally difficult is to predict the cycles in the commodities I mean if things change quickly and there is a demand surge all of this changes as well. So, I do not believe we can have a very good prediction and estimation of where we are exactly in that cycle, but we are seeing improvements in the market overall so to speak and we do believe that going forward the outlook does seem to be good.

**Gautam Bahal:** And just the last question my from side could you expand a bit more on this EV opportunity you talked about I mean what exactly is that for you guys?

**Rahul Agrawal:** If you look at the EV segment there is a significant push by the government and even in the recent budget to give a lot of impetus to shifting away from fossil fuel base vehicles whether it is two wheelers, whether it is passenger vehicles, commercial vehicles and so on and so forth to the electronic vehicle segment. In the EV segment the use of polymers broadly not just the polymers we produce is going to be significant as there is a need for EV producers or rather EV vehicle producers to optimize the weight of their vehicles to replace more metal with polymers which offer the properties which are needed for specific components whether it is fire resistance, heat resistance, weather resistance any of the other or impact resistance, any of the properties

which vehicles would need in different components polymers can deliver on that and lot of our products are ideally suited to meet those names in those different applications.

**Gautam Bahal:** Are these product sort of more value added or similar in terms of margins, etc.?

**Rahul Agrawal:** So, we believe some of the products will be similar and some of the products will be higher value.

**Moderator:** Thank you. As there are no further questions I would now like to hand the conference over to Mr. Abhijaat Sinha for closing comments. Over to you, Sir.

**Abhijaat Sinha:** So, we will take this opportunity to thank everybody and thank you for showing interest in the company and for joining the call and we look forward to seeing you in the next investor call. So, thank you and have a nice day.

**Moderator:** Thank you On behalf of Styrenix Performance Materials Limited that concludes this conference. Thank you for joining us and you may now disconnect your lines.