

16.08.2018

To,
BSE Limited
Dept. DSC_CRD
Phiroze Jeejeebhoy Towers,
Dalal Street
Bandra (E)
Mumbai 400 001
Stock code No. **506222**

National Stock Exchange of India Limited
Exchange Plaza,
Plot No. C/1, 'G' Block,
Bandra- Kurla Complex,
Bandra (E)
Mumbai 400 051
Stock code. **INEOSSTYRO**

Subject: Transcript of Earning's Call

Dear Sir,

Pursuant to Regulation 30 of Securities and Exchange Board of India (Listing Obligations and Disclosure Requirements) Regulations, 2015, please find the attached Transcript of the Earning's Call held on 09 August 2018 for first quarter ended on 30 June 2018.

You are requested to kindly take the above information on your records.

Thanking you.
Yours Faithfully,
For **INEOS Styrolution India Limited**


Haresh Khilnani
Company Secretary, Head – Legal & Compliance



“INEOS Styrolution India Limited
Q1 FY2018-2019 Results Conference Call”

August 09, 2018



MANAGEMENT:

**MR. SANJIV VASUDEVA – MANAGING
DIRECTOR & CHIEF EXECUTIVE OFFICER -
INEOS STYROLUTION INDIA LTD
MR. SANJEEV MADAN – CHIEF FINANCIAL
OFFICER - INEOS STYROLUTION INDIA LTD
MR. HARESH KHILNANI – COMPANY
SECRETARY, HEAD-LEGAL & COMPLIANCE -
INEOS STYROLUTION INDIA LTD**

Moderator: Ladies and gentlemen, good day and welcome to the INEOS Styrolution India Limited Q1 FY 2018-2019 results conference call. We have with us Mr. Sanjiv Vasudeva, Managing Director and CEO, Mr. Sanjeev Madan, CFO, 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 telephone. Please note that this conference is being recorded. I now hand the conference over to the management. Thank you and over to you!

Sanjeev Madan: Dear shareholders, investors and analyst fraternity, we welcome you to this earnings call. Your company INEOS Styrolution India Limited has declared its results for the Q1 ended June 30, 2018 on August 8, 2018. We will brief you about the major highlights of the performance.

Kindly note that the Revenue from the operations for period up to June 30, 2017 include excise duty, which is discontinued effective from July 1, 2017 upon implementation of GST in India. In accordance with Ind AS, GST is not included in revenue from operations. In view of the aforesaid restructuring of indirect taxes, revenue from operations for the quarter ended June 30, 2018 and March 31, 2018, are not comparable with the quarter April to June 2017.

Regarding quarterly performance, profit before tax in April to June 2018 increased to Rs.2659 lakhs as compared to Rs.434 lakhs April to June 2017. The revenue net of excise/GST from operations in current quarter increased to Rs.59511 lakhs as compared to Rs.44917 lakhs in April to June 2017. However, on gross basis including excise duty, revenue was Rs.50451 lakhs. Profit before tax in April to June 2018 is Rs.2659 lakhs as compared to Rs.5040 lakhs in January to March 2018. Revenue from operations in current quarter is Rs.59511 lakhs as compared to Rs.51051 lakhs in January to March 2018.

Now coming to the segment results. Specialties, profit before tax, interest, and other unallocable expenditure increased to Rs.3353 lakhs in current quarter as compared to Rs.1434 lakhs in April to June 2017. Profit before tax and other unallocable expenditure is Rs.3353 lakhs in current quarter as compared to Rs.4590 lakhs in January to March 2018.

Polystyrene, loss before interest and other unallocable expenditure has decreased to Rs.59 lakhs in current quarter as compared to loss of Rs.696 lakhs in April to June 2017. Loss before interest and other unallocable expenditure is Rs.59 lakhs in current quarter as compared to the profit of Rs.641 lakhs in January to March 2018. So, this is about the clarification and details about our financials. We can go forward for the queries or other clarifications which are needed.

Moderator: Thank you very much Sir. Ladies and gentlemen we will now begin the question and answer session. Our first question is from the line of Dimple Kotak from SKS Capital & Research. Please go ahead.

Dimple Kotak: Sir, I wanted to understand that on a Q-o-Q basis why has the specialties show a decline in EBIT that is around Rs.33 Crores versus Rs.46 Crores on a Q-o-Q basis and even polystyrene is showing a lot and second is that what has been the capacity utilization for specialty and what is the outlook going ahead and Sir one more clarification every quarter there is a presentation uploaded on the exchanges, have I missed it or it is actually not uploaded because I did not get it?

Sanjiv Vasudeva: This is Sanjiv Vasudeva. I will take your question here. The presentation was uploaded I think 15 minutes back so you should be able to see it. Let me take your first question on specialty, in specialty our volumes grew versus the previous quarter, but we were short of rubber and for that we had to make imports and the cost of the imports were relatively higher than what we manufacture here locally. In the January to March period we had more local production, which we maximized in the last quarter as well, but because of the incremental volume we had to import rubber from different suppliers from Korea and Thailand, which caused a relatively lower EBIT performance for specialty. For polystyrene, unfortunately we had a month long shutdown for one of the line, we had some mechanical failure, this was very unfortunate as this happened twice this year and though we grew the volume polystyrene versus the previous quarter if you remember we did something like 11000 tonnes in January to March versus 14000, we could have probably done 16000, but we lost couple of 1000 tonnes, which resulted in relatively poorer performance for polystyrene. Polystyrene is a very tight business, it is predominantly a volume game and we need to maximize the volume to recover all our cost and then make profit so there we had issue because of lower volume. Coming to the capacity utilization, the capacity utilization is in the 80s for the specialty and polystyrene is in the level of about 70% or so. On Outlook, we are still seeing pretty good growth, year-to-date for the specialty our volumes growth is 20% up year-on-year.

Dimple Kotak: Are we seeing a double digit growth or single digit growth going ahead?

Sanjiv Vasudeva: Double digit surely for specialty. Polystyrene I would say single digit and you may have heard things around ban on plastic products in the state of Maharashtra, but also some of the other states and we have to see how strongly that implementation is there that will have a bit of effect 5% to 10% effect on volume and polystyrene I would not expect anything more than 5% to 6% kind of growth at the best.

Dimple Kotak: 5% to 6% for polystyrene?

Sanjiv Vasudeva: Single-digit.

Dimple Kotak: For specialty in terms of number?

Sanjiv Vasudeva: I would say in a double-digit could anything be from 12% to 20%, automotive has held very strong this year, we are at 20% up year-on-year and as part of our triple shift strategy that this is a key segment for us, due to our contracts we enjoyed that growth as well. New changes in GST will have an effect on household, but not for all household items, we will have to see how it

shapes up. We are still optimistic on the volume side. Having said that in cyclical business some quarter really help improve the margin versus lower margin in others, so that is the area we have to look at. I am not so much concerned on the volume, but I think margin is something we need to look at going forward. I hope I have answered all your questions Dimple.

Dimple Kotak: Sir what is the capacity expansion where are we on that.

Sanjiv Vasudeva: Last year in the AGM back in August, we announced expansion of our Moxi plant by 35000 tonnes taking the capacity to 100000 tonnes, which we call Moxi 100, we are looking at start of operation by June, July next year. We had AGM this morning wherein we had a similar kind of discussion with the shareholders here in Vadodara and some of the local shareholders would look forward to visit our plant come August next year. We are pretty much on track with our project and as I mentioned in the previous call, we are also investing money to do engineering studies on our expansion of rubber facilities and our supply chain capability, those studies should be completed by December timeframe and we will be in a good position then to give you a timeframe of the construction and startup of the new facility.

Moderator: Thank you. We have the next question is from the line of Akshay Gavankar from ICICI Securities. Please go ahead.

Mayur: Mayur here. Actually I wanted to know what are the volume numbers for the quarter because I think the presentation has not yet been uploaded on BSE website?

Sanjiv Vasudeva: I will just give out, the total volume number is 44000 tonne versus 36000 tonnes.

Mayur: Last quarter?

Sanjiv Vasudeva: Last year was 37.3.

Mayur: Sir can you break up the volumes between ABS and polystyrene if possible?

Sanjiv Vasudeva: We do not do that, we just give us segment split based on revenue.

Mayur: Sir just wanted to know broad view on the gross margins of the specialty segment so if I exclude the higher rubber prices in this quarter so will we be able to match Q4 EBIT of ABS in the next quarters to come like we did ABS EBIT of close to Rs.46 Crores so going ahead if we are able to procedure rubber at domestic prices so can that EBIT be achieved in the Q2 onwards?

Sanjiv Vasudeva: Well theoretically yes, you are right as I mentioned to Dimple that rubber is something that we have to import, the fact is there is no domestic rubber producer in India so all rubber has to be imported and all these imports are at higher cost so some of these cost will still be there going forward for us, but we will continue to work on our product mix and try to improve our performance, but this rubber issue will still be there in the coming quarter for imports.

- Mayur:** Okay Sir what was the component of inventory gain in this quarter or was it there or not?
- Sanjiv Vasudeva:** It was more or less flat, there was hardly any inventory gain or loss.
- Mayur:** Okay and Sir coming to the polystyrene segment, with the stabilization happening in all that so do we foresee that in the coming few quarters there will be a good cycle in terms of profitability or the industry remains around current levels or there is no improvement in the industry as far as the gross margins are concerned?
- Sanjiv Vasudeva:** We expect our operations to show improved performance versus what we had in the last six months which in turn would help in getting more volumes, which will affect our profitability. Industry directionally is in the festival season so we expect some positive sentiment out of it, we do not know exactly like I mentioned to the lady earlier about how the plastic ban will play because part of our polystyrene goes into the packaging industry, fortunately it is less than 15%, 20% what goes in that segment so we will see how it shapes up, also with the lower GST there are some tailwinds and there could be some headwinds as well this we have to evaluate.
- Moderator:** Thank you. The next question is from the line of Harsh Vardhan from NMV Securities. Please go ahead.
- Harsh Vardhan:** Sir I just wanted to know how long is the contract base for the product you sell with the clients that is the specialty chemicals zone?
- Sanjiv Vasudeva:** Contracts with our key OEMs and all are on yearly basis so is that the question how longer the contract?
- Harsh Vardhan:** I just wanted to know Sir when there is spike in the raw material prices something can we pass it on to them?
- Sanjiv Vasudeva:** Yes it happens, it works both ways, spikes in raw material, spikes upside or downside in FX are part of the formula pricing, there may be lag of a month because you take a previous month's data and apply for the next month and sometime it may happen that it may fall in the next quarter depending on overlapping month and change of quarter, but contract pricings, it is a standard contract.
- Harsh Vardhan:** Okay one year time usually?
- Sanjiv Vasudeva:** It depends, most OEM, big OEMs it is one year, some customer we may make smaller contract, but majority it is longer term one year contract because everyone makes forecast for a year and we fix allocated volumes for the whole year.
- Harsh Vardhan:** Sir is there any forex loss for this quarter?

- Sanjeev Madan:** As you know, dollar is moving upwards and downwards in the last quarter so as Sanjiv Vasudeva has mentioned like we are passing on our forex gain and loss also as per the contract to our customers, so yes that is what we are also doing it, but we are doing the hedging, so we have some hedging cost in our financial.
- Harsh Vardhan:** Sir how much is the usual hedging cost as a percentage of sales?
- Sanjeev Madan:** No as a percentage of sales but we have around Rs.10 million to Rs.15 million, which we used to have as our hedging cost.
- Moderator:** Thank you. The next question is from the line of Arjun Sengar from Reliance Mutual Fund. Please go ahead.
- Arjun Sengar:** Firstly I just wanted to understand conceptually what is the value chain like as particularly I just wanted to understand rubber is an intermediate product, so can you just tell me starting with styrene monomer how do you reach ABS and where in the middle is rubber?
- Sanjiv Vasudeva:** Basically we make two kinds of products, one is ABS and one is polystyrene, ABS stands for Acrylonitrile, Butadiene and Styrene. Butadiene in general terms is rubber, so ABS is made of Acrylonitrile, Butadiene, which is rubber and Styrene. So we have the raw Styrene which is kind of in liquid form, it is converted into something and you take Styrene, you take Acrylonitrile and you mix both and you come up with in a big plant of course with a lot of processes and all, you take Styrene and Acrylonitrile and you get something called SAN Styrene Acrylonitrile and for rubber you take Butadiene, which is the basic raw material and then you take it through a big plant with reactor and do grafting of it and then you come up with this rubber, which is called HRG high graft rubber. So what you have then SAN, which is made in one plant, which you get SAN granules, you have this rubber which is more in powder form, you pick both these items, put them together so you get ABS, so you get from the SAN, you get the A, which is Acrylonitrile, you get the S and the N and from the rubber you get the B that is what the ABS is about. ABS is nothing but a mix of 65% Styrene and 20% rubber and 15% AN. While polystyrene is a different product altogether, polystyrene is 95% Styrene or 100% Styrene. There are two types, general purpose polystyrene and high impact polystyrene. General purpose is basically polymerization of styrene that is why it is called polystyrene. If you add impact modifier in it, it is high impact polystyrene.
- Sanjeev Madan:** So some of these things are pretty interesting.
- Arjun Sengar:** Right, thanks for the detailed explanation, just to follow up a little bit on this, so Acrylonitrile, Butadiene and Styrene are all primarily imported, all these three?
- Sanjiv Vasudeva:** For Styrene we do not have any manufacturer in India, it is imported all over from Korea, China, Thailand. For Butadiene you have some local players, you have Indian IOC and also you have

Haldia Petrochemicals, so you have some local players. For us we predominantly take from IOCL and OPal, so Butadiene is local for us. The AN is predominantly imported.

Arjun Sengar: So what you are saying happened during this quarter you ran short of rubbers and the reason for that was you did not have enough capacity for producing rubbers?

Sanjiv Vasudeva: You take Butadiene through plant reactors and do grafting to make HRG rubber. We are constraint on the capacity to do the grafting to make the final rubber product from the Butadiene. The second thing, in general the higher demand, in automotive generally you would expect 8% to 10% kind of growth, has grown by 20% this year and we have a pretty high share position there, so our rubber demand was relatively high because of that. Due to constrained rubber capacity we have to import the finished HRG rubber from Korea and Thailand and gain share in the market as well.

Moderator: Thank you. We have the next question from the line of Mononita Mitra from Stewart & Mackertich. Please go ahead.

Mononita Mitra: First of all congratulations on the good set of numbers. The government is considering imposition of higher import duties on consumer durables just following the slash of GST rate, so this will lead to increase in demand for your products, I would like to know more about it.

Sanjiv Vasudeva: First of all Mononita thank you for your comments. Well, the GST we need to look at the details a bit more, but the latest thing on the GST I believe your question was all along GST only, right?

Mononita Mitra: The question is that government is reducing the import duty on consumer durables and it has already reduced the GST rate on consumer durables, so because of that the demand for your product, the raw materials will increase and how much can the demand increase I would like to know?

Sanjiv Vasudeva: Too early to tell, but directionally we would say Yes. If the GST rates are lower it will spur the demand for some of these household electronics item how much is anyone's guess, it may be 10% more than what it is today, it is just a guess, we have to see at least for six months or so how the GDP in the coming months shapes up.

Mononita Mitra: How much demand comes from the domestic consumer durable companies?

Sanjiv Vasudeva: We do not export anything, so for us it is all local sales.

Mononita Mitra: Okay, but segment wise you cater to automobile segments as well and consumer durables also, so consumer durables as a part of whole how much does the demand comes?

Sanjiv Vasudeva: We do not disclose our segment data, but we have a fair share in the household consumer durable segment, we have a very fair amount of share in the automotive business.

- Mononita Mitra:** Okay. Thank you.
- Moderator:** Thank you. We have the next question from the line of Aditya Khaitan from Nalanda Securities. Please go ahead.
- Aditya Khaitan:** Sir I would like to know the market size of ABS and SAN?
- Sanjiv Vasudeva:** The market size of ABS would be north of 250000 tonnes I would believe, SAN is relatively smaller market, it is probably 30000 tonnes or so not more than that.
- Aditya Khaitan:** How the market is going right Sir, expectation of the market to grow?
- Sanjiv Vasudeva:** We are looking a double digit growth, so it could be anything between 10% and 20% like automotive like I said earlier we were expecting a 10% kind of a growth number, but auto has grown 20%, so we expect double digit to continue for sure.
- Aditya Khaitan:** And the pricing of ABS, so what are the current pricing of the quarter?
- Sanjiv Vasudeva:** The current price of ABS the general price or average price of ABS?
- Aditya Khaitan:** Average price.
- Sanjiv Vasudeva:** Average price of ABS if you Google it would be around Rs.140 to Rs.150, 150 more or less on an average.
- Aditya Khaitan:** Rs.140 to Rs.150?
- Sanjiv Vasudeva:** Rs.150 or so, it is a very generic, if you Google the price of ABS and it is grade dependent like 1000 of grades but average price would be considered.
- Aditya Khaitan:** SAN Sir, so can you say the contribution of SAN to the revenues in this quarter, what would be the amount the quantum number?
- Sanjiv Vasudeva:** Contribution of what SAN?
- Aditya Khaitan:** SAN yes Sir?
- Sanjiv Vasudeva:** SAN is predominantly material that we used to make ABS, so it is intermediate and we do have some direct sales of SAN, so SAN contributes towards ABS, it contributes overall towards the profitability and the business we are in.
- Moderator:** Thank you. The next question is from the line of Sanjay Shah from KSA Securities. Please go ahead.

Sanjay Shah: Good evening gentlemen and congrats for good numbers, Sir my major questions are being answered, only the thing we would like to know a future vision from your side, how do you see the market panning out internationally and in India for our products and are we in a crux of developing new products?

Sanjiv Vasudeva: Yes. Thank you Sanjay for your complement. Like I mentioned earlier, we are bullish on India growth, we are looking at double digit growth for ABS, for Polystyrene like I mentioned we are looking at 5%, 6%, Polystyrene is a kind of declining market relative to ABS because of the kind of specific application it goes into, so that is the difference between the two. Global market, I think last six, eight months has been pretty good, China has been very, very strong just like India, I think even Europe and US has been pretty good. Going forward, very difficult for me to talk about global, but India I believe we are still looking at double-digit growth for sure.

Sanjay Shah: Any new products we are launching?

Sanjiv Vasudeva: Sorry I missed your second question, in fact we do launch quite a few new products what we call NPIs, in fact recently with TVS we made a new product and we were able to get quite a good amount of new business with TVS motorcycle. As a matter of fact, within our parent company INEOS Styrolution, we got global award for innovation this year – last quarter gold award, which is complements to all of you and all our shareholders as well.

Moderator: Thank you. We have the next question from the line of Niket Shah from Motilal Oswal Securities Mutual Fund. Please go ahead.

Niket Shah: Thanks for the opportunity. Just couple of questions, first I want to just get a sense on the, if you can provide me breakup between the normal grade, colour and specialty. The second question was how are you seeing in terms of imports increasing from Iran recently because of shortage of capacity of ABS in the Indian market and third on the Forex part of it, how much Forex loss and gain that you had in the quarter versus last year FY2018 full year, if you can give all the numbers as well that would be great?

Sanjiv Vasudeva: Yes I think first question on your normal grade, colour ABS predominantly specialty, we have 600 grade colour combinations, 2500 colours, so broadly some of the natural, non-coloured would be around 20%, 25 %, but the rest are all coloured, are mixed and other kind of products, you have different kind of pigments and additives in your products, not colour, quality which give different end properties. I think Forex question I would let Sanjeev answer, but you had one more question, the second question could you repeat. There was one question related to Forex and you had one more question.

Niket Shah: Import from Iran?

Sanjiv Vasudeva: We do not do the imports from Iran.

- Niket Shah:** In the market itself has the imports from Iran gone up in the ABS industry within India I am saying not for you specifically?
- Sanjiv Vasudeva:** We do keep a track of all the import data, I think probably from Middle East, but nothing compared to what you get from Korea, nothing from Iran, Iran would be zero, at least I have not seen.
- Niket Shah:** Forex part?
- Sanjeev Madan:** Forex, yes, as I mentioned earlier to the another gentleman Forex exchange gain loss ~~like~~ we do the hedging of our Forex part of it and for that we have incurred the cost of approximately 10 to 15 million INR; however, the Forex gain loss we have a contract with our OEMs, which we pass on depending on the contracts weekly, monthly or quarterly basis.
- Niket Shah:** How much percent of a raw material we are sourcing from our sister concern and how much would be the cost advantage or disadvantage whichever you want to put it buying it from a normal supplier, so if you can just give us some sense on that that will be very helpful?
- Sanjiv Vasudeva:** All our Styrene, which is the bulk of product is from Shell and SABICT, which are not our parent, it is only rubber at times because we have shortage, we sourced rubber from our parent company, but also from other suppliers like Kumho and suppliers from Thailand like IRPC and all.
- Sanjeev Madan:** Related party which you have asked, so you can go through our financials over there, we have given the full detail at the page No.96 and 97, so whatever we are doing the transaction with related party that has been fairly explained in the year ending March 31, 2018 financial, in the annual report.
- Moderator:** Thank you. The next question is from the line of Ronak Morjaria from Edelweiss Asset Management. Please go ahead.
- Ronak Morjaria:** Good evening, Sir if you could help me understand from the industry perspective you gave a market size roughly to 250000 tonnes, out of that how much would be imports in India and how is the trend if you could help me understand over last two, three years and this year how are we seeing in terms of imports?
- Sanjiv Vasudeva:** I think for the ABS, you are talking about the ABS business?
- Ronak Morjaria:** Yes ABS.
- Sanjiv Vasudeva:** ABS, out of this 250000 tonnes, imports would be 35% to 40% and the remainder would be local producers, which is us and a local competitor in India.

- Ronak Morjaria:** How is the trend being like are we able to replace the imports or import share is always remained more or less in this range in the last one or two years?
- Sanjiv Vasudeva:** I think directionally as we expand we are gaining volume right, I do believe that the local Indian producer would be getting more share, last year there were some changes, but changes happens with a couple of percentage point each year.
- Ronak Morjaria:** In terms of pricing and quality, you and the other players, would it be similar or how would it be versus imports?
- Sanjiv Vasudeva:** Imports generally would come for more bulk products so in general the price of imports would be a bit on the lower side and locally we try to do more product mix up because of local facility and I believe our competitors are the same.
- Moderator:** Thank you. Ladies and gentlemen that was the last question. I now hand the conference over to Mr. Haresh Khilnani for closing comments. Thank you and over to you Sir!
- Haresh Khilnani:** Dear all, thank you for joining this call and we will continue to answer your questions, if you have still more questions you can contact us in the next earnings call and we will certainly try to address as much as we can do for you. Thank you and have a good day.
- Sanjiv Vasudeva:** Thank you, all the best
- Moderator:** Thank you very much. Ladies and gentlemen on behalf of INEOS Styrolution India Limited that concludes this conference. Thank you for joining us. You may now disconnect your lines.