



COMPANY NAME : **INEOS Styrolution**

BSE Code : **506222**

Time Duration : **1 year**

CMP : **₹1067 (as on 20 July, 2017)**

Target Price : **₹1455**

The Mid-Bridge for the month of July is INEOS Styrolution. The company we believe will benefit from better economic growth, leading to higher sales in automotive and consumer durables propelling demand for its products. Its polymer products are expected to see traction in demand and a growth of 8-10% in industry will lift volumes for the company.

We see ROE improving from the current 11% to 14% by mid-FY19. We expect the company to give returns of ~36%; however, with the heightened risk of vagaries of raw material prices, we urge investors to SIP in the stock over the next three months. We are targeting the stock to reach Rs 1,455 over the next one year.

What is ABS?

ABS is one of the polymers and can withstand low and high temperatures. It tends to come between regular PVC and high performance carbonates. It mostly has applications in engineering domains and hence is more of an engineering plastics.

INEOS is one of the few organized players in this market and it supplies products to all leading 2-wheeler and 4-wheeler OEMs. The company's products has applications in household and electronics, packaging industry, helmets, bangles and jewellery etc.

The company operates in a niche segment and the barriers it has created include longstanding relationships and speciality products for its customers. However, for commoditized products, imports provide a ready replacement market for the customers.

Industry size

As per the company management, the market for ABS is on the higher side of 2 lakh tonnes and is growing at a rate of 8-10%. The market for SAN is ~50,000 tonnes while for polystyrene it is estimated to be around 2.5 – 2.7 lakh tonnes.

Compared to the market, we see that INEOS has capacity to the tune of 80,000 tonnes of ABS, 100,000 tonnes capacity of SAN and polystyrene capacity close to 78,000 tonnes. For ABS, the capacity is fully utilized and the company has tie-ups with trollers to meet any additional requirement.

Growth drivers

1) GDP growth – Demand from INEOS products emanates from

the consumption led demand for automobiles, consumer durables and electronic products.

We see demand for automobiles as well as consumer durables has been strong and growing at high double digit due to higher per capita income and normal monsoon driving rural demand. We see that with increasing applications in household goods and day-to-day life, the demand for the products are set to increase.

2) Benefits of durability and light weight leading to replacement demand

- The company is also benefiting from the replacement of the traditional material with ABS and Styrene due to its better durability and light weight. This provides additional markets for products that can be custom-made as per the OEMs' demand. The products also give aesthetic look, making it more appealing.

3) Introduction of new products - The company has been exploring the utilisation of products in varied industries like health-care and pharma.

4) Tie-ups with trollers – The company is operating at near full capacity, but it has tie-ups with trollers who can deliver products to the customers. It uses the trollers to fill up demand gaps, and hence, we see that the company is much better positioned to adjust to the ups and downs of the industry cycle. Also, due to the tie-ups, it saves on logistics cost and is able to maintain margins.

Financial Performance

Revenue in FY17 decreased by 6% YoY to Rs 1729.25 cr from Rs 1682.19 cr due to decrease in raw material prices and global market prices of finished goods. The sales volume also decreased from 142.5 KT to 125.2 KT in FY17 due to the impact of demonetisation in the third and fourth quarters of FY17. However, PBT grew at 67% YoY in FY17 as margins improved and had inventory gains. Its PAT also grew at 10.4% in FY17 to Rs 69.28 cr from Rs 62.77 cr. It has delivered ROE and ROCE of 11.8% and 18.13%, respectively, in FY17 which is higher as compared to its peers.

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Valuation and Outlook

The company management expects to grow at 1.3 -1.5x the GDP growth, which leads to a growth rate of ~9%. We see that with benign raw material prices, the company is expected to maintain its net profit margin at 5% and building in the growth rate of ~10%, we see that the company is trading at FY18E P/E of 19x, which

leads to upside of 36% from the current levels.

We see that the stock price has run up lately due to good Q4FY17 results, hence we urge investors to invest in three tranches and **BUY** on dips.

Inc/Exp Statement(Standalone) (Rs in Crore)

Description	201703	201603	201503	201312	201212
Net Sales	1669.18	1597.02	1463.29	1114.50	989.33
Total Income	1673.25	1599.75	1467.99	1125.28	1000.47
Total Expenditure	1541.58	1502.59	1380.12	1031.32	890.22
PBIDT	131.67	97.15	87.87	93.96	110.26
PAT	69.28	62.77	35.02	50.50	63.13
Dividend %	40.00	40.00	40.00	40.00	40.00
Adj. EPS(Rs)	39.39	35.69	19.92	28.72	35.90

Quarter On Quarter (Standalone) (Rs in Crore)

Particulars	201703	201612	Q on Q Var%	201603	Y on Y Var%
Net Sales	449.31	308.08	45.84	424.09	5.95
Total Expenditure	403.37	298.37	35.19	388.64	3.79
PBIDT (Excl OI)	45.94	16.52	178.03	35.46	29.58
PAT	29.69	5.42	448.15	26.55	11.82
PBIDTM% (Excl OI)	10.22	4.68	118.38	8.36	22.25
PBIDTM%	10.47	4.82	117.22	8.45	23.91
PATM%	6.61	1.53	332.03	6.26	5.59
Adj. EPS(Rs)	16.88	3.08	448.05	15.10	11.79

