

Styrolution ABS

Attractive Valuation

Company Background

Styrolution ABS (name changed from INEOS ABS India Ltd. effective from March 1, 2012) is a leading manufacturer of an engineering plastic namely styrene monomer, polystyrene and ABS. The company is a 50/50 joint venture between BASF and INEOS ABS formed by combining the styrenic business of two of the largest global chemical companies. In the domestic market, Styrolution is the market leader and holds 60% market share in ABS resins segment and 68% in SAN resins segment.

The Promoter, Styrolution Jersey, also the parent company proposes to sell 2,167,562 equity shares (12.3% of total paid up equity capital) at ₹400 per share in order to abide by the June 2010 amendment of 'Securities Contract Act' mandates listed companies to have a minimum 25% of public shareholding by June 2013.

Persisting short supply coupled with capacity expansion to boost growth

Styrolution which has expanded its capacity (ABS from 60,000TPA in 2010 to 80,000TPA in 2011) has an opportunity to reap benefits owing to domestic ABS demand supply gap (met by imports) which has persisted for long and continues to exist. Further, CRISIL Research estimates that the domestic supply of ABS would grow at 17% CAGR in order to meet the demand growth of 10% CAGR during CY2010-15E, providing revenue visibility for the company. Thus, persisting short supply and continued demand growth coupled with capacity expansion is to enhance the top-line growth of the company.

Outlook and valuation

We expect Styrolution's revenue to post a CAGR of 11.2% over CY2012-14E to ₹1,223cr in CY2014E on the back of consistent developments by the company. The EBITDA and net profit are expected to post a CAGR of 11.1% and 11.8% respectively over CY2012-14E. At OFS floor price, the stock is attractively valued at 5.2x PE for CY2014E earnings and at 23% discount to its last traded price (20th May, 2013). Hence **we recommend investors to Subscribe for Styrolution OFS.**

Key Financials (Standalone)

Y/E Dec (₹ cr)	CY2010	CY2011	CY2012	CY2013E	CY2014E
Net Sales	742	825	989	1,068	1,223
% chg	32.8	11.2	19.8	8.1	14.4
Net Profit	70	54	62	67	78
% chg	43.0	(22.9)	14.8	7.9	15.8
EBITDA (%)	15.2	9.9	9.6	9.6	9.6
EPS (₹)	39.8	30.7	35.3	38.1	44.1
P/E (x)	13.1	17.0	14.8	13.7	11.8
P/BV (x)	2.7	2.4	2.1	1.9	1.6
RoE (%)	23.1	15.1	15.2	14.4	14.7
RoCE (%)	50.7	17.9	16.9	17.0	18.5
EV/Sales (x)	1.0	1.1	0.9	0.8	0.7
EV/EBITDA (x)	6.8	10.8	9.8	8.8	7.4

Source: Company, Angel Research

SUBSCRIBE

Issue Open: March 21, 2013

Issue Close: March 21, 2013

Issue details	(₹)
Face Value	10
Present Equity Paid-up Capital	17.59cr
Offer size	86.7cr
Post Equity Paid-up Capital	17.59cr
Issue Size (no of shares)	2,167,562
Issue Size (amount)	86.7cr
OFS Floor Price	400
Promoters holding Pre-Issue	87.3
Promoters holding Post-Issue	75.0

Post Issue share-holding Pattern	(%)
Promoter	75.0
MF/Banks/Indian Fls/FII/NRIs /OCBs/Public/Others	25.0

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Styrolution (Promoters held 83.33% stake in Dec'11) made an open offer to the shareholders with the offer cash price of ₹606.8 for balance 16.67% stake. Resultant to open offer 4% of the shares were received and Promoters stake stood at 87.33%.

Issue details

The Promoter, Styrolution Jersey, also the parent company proposes to sell 2,167,562 equity shares of face value ₹10 each representing 12.3% of the total paid up equity share capital of the company. The stake sell is offered in order to abide by the June 2010 amendment of 'Securities Contract Act' which mandates listed companies to have a minimum 25% of public shareholding by June 2013. Styrolution has fixed the OFS floor price at ₹400 per share.

Exhibit 1: Shareholding Pattern

Particulars	Pre issue		Post issue	
	No of shares	%	No of shares	%
Promoter and promoter group	15,356,780	87.3	13,189,218	75.0
Total public holding	2,228,845	12.7	4,396,407	25.0
Total	17,585,625	100	17,585,625	100

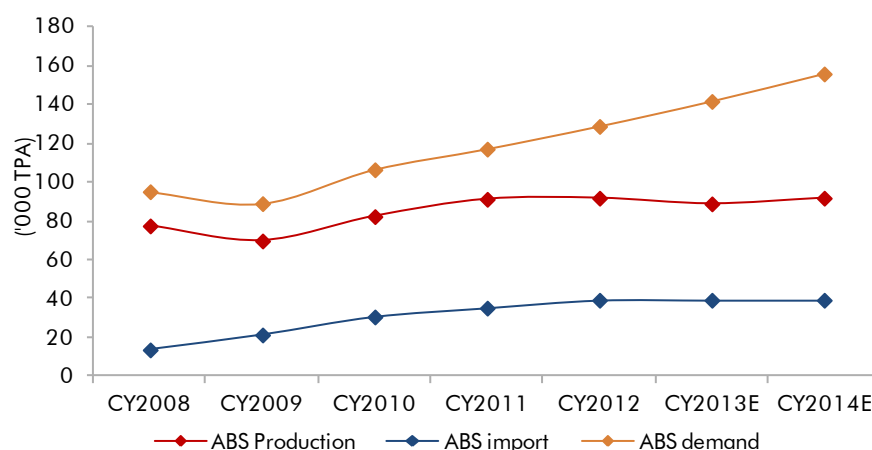
Source: Company, Angel Research

Investment Rationale

Capacity expansion to compliment unfulfilled ABS demand

The gap between domestic demand for ABS vis-a-vis supply has persisted for long and the same still continues to exist. The unfulfilled demand is being met by imports. CRISIL Research estimates that the supply of ABS would grow at 17% CAGR in order to meet the demand growth of 10% CAGR during CY2010-15E. Styrolution has expanded its capacity of ABS from 60,000TPA in 2010 to 80,000TPA in 2011 and has plans to extend capacity further to 110,000TPA in CY2013. This extended capacity will enable Styrolution to tap the unfulfilled demand in the industry. Assuming the market share of Styrolution to remain constant at 60%, volumes for ABS are likely to grow by ~12% over this period.

Exhibit 2: Unfulfilled domestic demand owing to demand supply gap



Source: Company, Angel Research

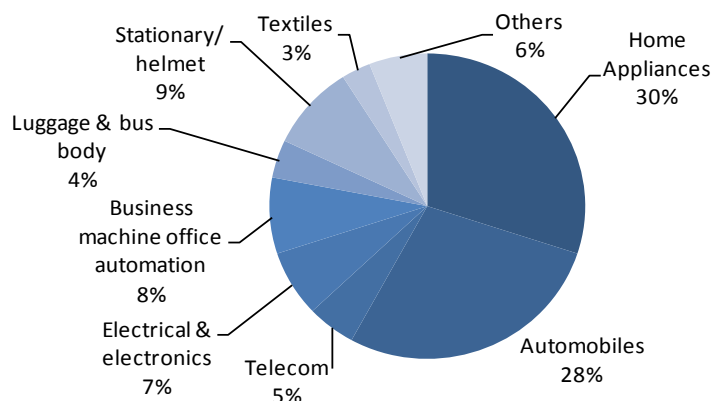
Debt free and high return ratios

The company has its Debt to Equity at 0.2 times while Net Debt is at almost negligible level. Moreover, Styrolution has successfully delivered handsome returns of more than 15% on equity as well as invested capital over last five years, thereby assuring robust returns.

Tailor-made products as per market and consumer demand

Considering the rising demand for polymers in varied industries, Styrolution has been consistently expanding its capacity and simultaneously co-polymerising ABS ie, changing polymer composition and blending. The company has come up with many tailor made products taking advantage of ABS' flexibility of composition and structure, which allows its use in diverse applications.

Exhibit 3: Application Industry Composition



Source: Company

Outlook and valuation

We expect Styrolution's revenue to post a CAGR of 11.2% to ₹1,223cr over CY2012-14E on the back of consistent expansion plans of the company coupled with revival in user industry. EBITDA is expected to grow at 11.1% CAGR to ₹117cr in CY2014E. The rise in manufacturing cost due to high feedstock prices and currency depreciation is expected to be passed on to the consumers by price hike, thereby offsetting any negative impact on EBITDA margin. Hence, EBITDA margin is expected to remain constant at 9.6% in CY2013E and CY2014E. The net profit is expected to post a CAGR of 11.8% to ₹78cr in CY2014E while margins are to remain stable at 6.3% owing to stable operating performance. At OFS floor price, the stock is attractively valued at 5.2x PE for CY2014E earnings and at 23% discount to its last traded price (20th May, 2013). Hence, **we recommend investors to Subscribe for Styrolution OFS.**

Profit and Loss (Standalone)

Y/E December (₹ cr)	CY2010	CY2011	CY2012	CY2013E	CY2014E
Gross sales	816	910	1,090	1,178	1,348
Less: Excise duty	74	84	101	109	125
Net Sales	742	825	989	1,068	1,223
Other operating income	-	-	-	-	-
Total operating income	742	825	989	1,068	1,223
% chg	32.8	11.2	19.8	8.1	14.4
Net Raw Materials	522	620	750	814	932
% chg	44.8	18.8	21.0	8.6	14.5
Other Mfg costs	36	41	46	45	52
% chg	5.7	12.9	10.7	(0.6)	14.4
Personnel	20	24	27	30	34
% chg	16.1	16.1	16.2	8.1	14.4
Other	51	59	71	77	88
% chg	(15.9)	15.9	19.8	8.1	14.4
Total Expenditure	629	744	894	965	1,105
EBITDA	113	82	95	103	117
% chg	31.0	(27.6)	16.4	8.2	14.1
EBITDA Margin	15.2	9.9	9.6	9.6	9.6
Depreciation & Amortisation	14	14	14	16	16
EBIT	99	68	82	87	102
% chg	38.0	(31.5)	20.3	7.2	16.0
(% of Net Sales)	13.3	8.2	8.3	8.2	8.3
Interest & other Charges	2	2	1	-	-
Other Income	5	11	11	12	13
(% of Net Sales)	0.7	1.4	1.1	1.1	1.1
Recurring PBT	97	66	81	87	102
% chg	37.9	(31.9)	22.0	8.3	16.0
PBT (reported)	103	78	92	99	115
Tax	33	24	30	32	37
(% of PBT)	31.8	30.3	32.6	32.6	32.6
PAT (reported)	70	54	62	67	78
Extraordinary Expense/(Inc.)	(0)	(0)	-	-	-
ADJ. PAT	70	54	62	67	78
% chg	43.0	(22.9)	14.8	7.9	15.8
(% of Net Sales)	9.4	6.5	6.3	6.3	6.3
Basic EPS (₹)	40	31	35	38	44
Fully Diluted EPS (₹)	40	31	35	38	44
% chg	43.0	(22.9)	14.8	7.9	15.8

Balance Sheet (Standalone)

Y/E December (₹ cr)	CY2010	CY2011	CY2012	CY2013E	CY2014E
SOURCES OF FUNDS					
Equity Share Capital	18	18	18	18	18
Preference Capital	-	-	-	-	-
Reserves & Surplus	317	362	416	475	544
Shareholders' Funds	334	380	434	493	562
Minority Interest	-	-	-	-	-
Total Loans	-	131	67	67	67
Deferred Tax Liability (Net)	21	18	17	17	17
Other long term liabilities	-	0	0	0	0
Long term provisions	-	15	15	15	15
Total Liabilities	356	544	533	592	661
APPLICATION OF FUNDS					
Gross Block	318	335	362	372	384
Less: Acc. Depreciation	181	195	209	224	240
Net Block	136	140	153	148	144
Capital Work-in-Progress	12	-	-	-	-
Lease adjustment	-	-	-	-	-
Goodwill	-	-	-	-	-
Investments	93	101	17	21	25
Long Term Loans and advances	-	35	28	43	49
Other non-current assets	-	0	0	0	0
Current Assets	281	318	439	492	572
Cash	60	63	31	57	87
Loans & Advances	41	35	136	147	169
Inventory	71	95	95	98	100
Debtor	109	124	175	189	216
Other current assets	-	1	1	1	1
Current liabilities	166	51	104	112	128
Net Current Assets	115	268	335	380	444
Mis. Exp. not written off	-	-	-	-	-
Total Assets	356	544	533	592	661

Cash Flow (Standalone)

Y/E December (₹ cr)	CY2010	CY2011	CY2012	CY2013E	CY2014E
Profit Before Tax	103	78	92	99	115
Depreciation	14	14	14	16	16
Change in WC	16	(330)	(99)	(20)	(34)
Other income	(5)	(11)	(11)	(12)	(13)
Direct taxes paid	(33)	(24)	(30)	(32)	(37)
Cash Flow from Operations	95	(273)	(34)	51	46
(Incr)/ Decr in Fixed Assets	(8)	(5)	(27)	(11)	(11)
(Incr)/Decr In Investments	(21)	(43)	91	(18)	(10)
Other income	5	11	11	12	13
Cash Flow from Investing	(24)	(37)	75	(17)	(8)
Issue of Equity/Preference	-	0	-	-	-
Incr/(Decr) in Debt	(2)	142	(65)	-	-
Dividend Paid (Incl. Tax)	(7)	(7)	(8)	(8)	(8)
Others	(39)	179	-	-	-
Cash Flow from Financing	(48)	314	(73)	(8)	(8)
Incr/(Decr) In B/S Cash	22	4	(32)	25	30
Opening Cash balance	37	60	63	31	57
Closing cash balance	60	63	31	57	87

Key Ratios (Standalone)

Y/E December	CY2010	CY2011	CY2012	CY2013E	CY2014E
Valuation Ratio (x)					
P/E (on FDEPS)	13.1	17.0	14.8	13.7	11.8
P/CEPS	10.9	13.5	12.1	11.1	9.8
P/BV	2.7	2.4	2.1	1.9	1.6
Dividend yield (%)	0.8	0.8	0.9	0.9	0.9
EV/Net sales	1.0	1.1	0.9	0.8	0.7
EV/EBITDA	6.8	10.8	9.8	8.8	7.4
EV / Total Assets	2.1	1.6	1.8	1.5	1.3
Per Share Data (₹)					
EPS (Basic)	40	31	35	38	44
EPS (fully diluted)	40	31	35	38	44
Cash EPS	48	39	43	47	53
DPS	4	4	4	4	4
Book Value	190	216	247	280	320
DuPont Analysis					
EBIT margin	13.3	8.2	8.3	8.2	8.3
Tax retention ratio	0.7	0.7	0.7	0.7	0.7
Asset turnover (x)	3.8	2.2	2.0	2.1	2.2
ROIC (Post-tax)	34.6	12.5	11.4	11.5	12.5
Cost of Debt (Post Tax)	-	-	-	-	-
Leverage (x)	(0.5)	(0.1)	0.0	(0.0)	(0.1)
Operating ROE	18.8	11.4	11.9	11.2	11.5
Returns (%)					
ROCE (Pre-tax)	27.5	12.5	15.3	14.8	15.4
Angel ROIC (Pre-tax)	50.7	17.9	16.9	17.0	18.5
ROE	23.1	15.1	15.2	14.4	14.7
Turnover ratios (x)					
Asset TO (Gross Block)	2.3	2.5	2.7	2.9	3.2
Inventory / Net sales (days)	35	36	36	36	36
Receivables (days)	54	54	54	54	54
Payables (days)	96	92	96	95	94
WC cycle (ex-cash) (days)	27	90	112	110	107
Solvency ratios (x)					
Net debt to equity	(0.5)	(0.1)	0.0	(0.0)	(0.1)
Net debt to EBITDA	(1.3)	(0.4)	0.2	(0.1)	(0.4)
Int. Coverage (EBIT/ Int.)	55.0	42.1	102.0	-	-

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Disclosure of Interest Statement	Styrolution
1. Analyst ownership of the stock	No
2. Angel and its Group companies ownership of the stock	No
3. Angel and its Group companies' Directors ownership of the stock	No
4. Broking relationship with company covered	No

Note: We have not considered any Exposure below ₹ 1 lakh for Angel, its Group companies and Directors

Ratings (Returns):	Buy (> 15%) Reduce (-5% to -15%)	Accumulate (5% to 15%) Sell (< -15%)	Neutral (-5 to 5%)
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