

Polymers like ABS and PS to see good demand boost

CMP: INR 2,457

Tactical Buy

Target: INR 3,000

Stock Info

BSE	506222
NSE	STYRENIX
Sector	Petrochemicals
Face Value (INR)	10
Equity Capital (INR Mn)	175.9
Mkt Cap (INR Mn)	43,226
52w H/L (INR)	2,880 / 1,033
Avg Daily Vol (in 000')	59.3

Shareholding Pattern %

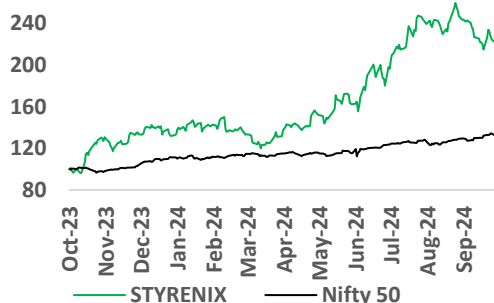
(As on June, 2024)

Promoters	46.24%
Public & Others	53.76%

Stock Performance (%)

	1m	3m	12m
Styrenix	-7.11	15.21	130.23
Nifty 50	2.11	6.91	32.12

STYRENIX Vs Nifty 50



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Styrenix Performance Materials Limited (formerly known as INEOS Styrolution India Limited) is one of the leading producer Acrylonitrile butadiene styrene (ABS) and SAN in India. The Company serves various industries, focusing especially on automotive, home appliances, electrical and electronics, construction, packaging and the healthcare industry. They have a marquee clientele including Hero, Bajaj, TVS, Mahindra, LG, Samsung, Havells, Godrej, Linc and Flair. The company has total capacity of 85,000 Tonnes for ABS and Polystyrene capacity of 66,000 Tonnes, which they plan to increase in the short term to 105,000 tonnes each. The company has various grades of ABS and PS in their portfolio including value added products. Some of the new products launched recently are Styrolay and Asalac.

Investment Rationale:

Indian household items penetration in Urban and rural is growing much faster due to increase in per capita income and spending. Apart from demand growth, increase in size of the product like larger refrigerator, TV, washing machine, etc. bodes well for higher polymer demand growth. Also, India Auto industry focusing on Two-wheeler and four-wheeler growth is estimated to be around 7-10%, however demand of SUV, higher performance premium feature motorbikes should aid higher growth. In Q1FY25, Auto industry saw ~11% growth in 2W and 4W segment while Large appliances like Refrigerators, AC and Washing Machine saw robust growth of 7%, 30% and 10% respectively. Other miscellaneous industry also witnessed growth of ~10%. For Q2FY25, the outlook remains positive as many new global OEMs are setting up plants in India while household industry is witnessing a positive trend in demand across all segments. Auto OEMs are also positive to see recovery in sales of 4W on the back of higher spending by customers.

Demand for ABS has been growing rapidly in the domestic market. Total consumption of ABS in India is 325,000 tonnes per annum and is expected to reach 400,000 tonnes in the near term. Key players in the market are only able to supply 155,000 tonnes which leads to heavy dependency on imports from countries like Japan, South Korea and Thailand. As a result of this, key players in the sector like Bhansali Engineering Polymers and Supreme Petrochem are increasing their capacities by brownfield expansion and debottlenecking projects. Styrenix is looking to increase their ABS capacity from 105,000 tonnes to 210,000 tonnes and PS capacity from 66,000 tonnes to 150,000 tonnes in the next 3 years. They are also evaluating their near term plan and expect to accelerate the process of expansion in FY25. The company is operating at 100% capacity utilization. The rise in domestic demand is reflected in sales volumes of the company, which reached to 48,055 tonnes in Q1FY25, growing sequentially at a consistent pace. We can expect this momentum to continue in the coming quarters.

ABS and PS prices have gone up in recent months because of capacity shut down by European companies due to financial viability and also some shut down in capacity from North America due to drought as ABS requires good amount of water usage. Apart from this, red sea crisis and Singapore port congestion has resulted in the freight cost going up sharply in short span of time. Companies exporting to India are cancelling the orders resulting into shortage of ABS in India. Importers and distributors/dealers of ABS and PS are expecting prices of ABS and PS to go up further for next two months. Given, the domestic manufacturers like Styrenix have reasonable inventory of raw material in hand, they will stand to benefit immensely because of the current situation.

Valuation & Outlook: We anticipate a continued uptrend in the demand for electronics, home appliances, and other white goods, driven by robust consumer spending, with the demand for two-wheelers and four-wheelers expected to rebound from Q2FY25 onwards. Styrenix is strategically positioned to meet this anticipated demand. Global market spreads have stabilized and are moving positively. The anticipated price increase of finished goods, coupled with rapid volume growth, are expected to benefit the company significantly. We have a positive outlook on the company. At CMP, the company trades at 22x P/E on TTM EPS of INR 114.82.

Q1FY25 Concall Highlights

Styrenix has reported strong set of numbers led by volume growth and improvement in realisations. They plan to increase their ABS and PS capacity substantially in FY25; they have guided for acceleration of expansion and debottlenecking project in the coming quarters. There has been a substantial increase in demand for automotives, home appliances and other white goods, which will lead to consistent volume growth. Finished goods prices have seen an uptrend from the later half of Q1, which will flow in Q2FY25. They plan to extend their product portfolio with value added products which will lead to margin expansion complemented by operational efficiency.

Revenue came in at INR 6.98bn (+16.7% QoQ/28.5% YoY). EBITDA came in at INR 922mn (+24.2% QoQ/73.8% YoY) with margin of 13.19%. PAT for the quarter stood at INR 612mn (+24% QoQ/88.6% YoY) with margin of 8.7%. Total overall sales volumes for the quarter stood at 48,055 MT. There has been a sequential increase in sales volumes.

There has been no major change in imports of ABS in India. Though the company's volumes have increased and have taken some share of imports.

Bulk freight of raw materials was impacted towards the end of the quarter which led to the company procuring raw materials from spot market. Finished goods shipment are also seeing an impact (increased prices) in the ongoing quarter due to freight changes but no impact was seen in Q1FY25. The company maintained their volume guidance of 20% growth in FY25. They are expecting sequential increase in volumes in the coming quarters led by debottlenecking plans. They are targeting 100-105,000 tonnes of ABS sales in FY25 v/s 90,000 tonnes last year.

The new products launched have not generated much sales in the quarter mainly because these are very recent launches. The company is positive that these products will drive growth as they are focusing on value added segment.

The capex planned for FY25 is to be revaluated in the coming quarter as they plan to accelerate their expansion. They plan to increase their ABS capacity from 105,000 tonnes to 210,000 tonnes along with increasing Polystyrene capacity to 150,000 tonnes by FY27.

There has been no major change in the overall product mix. Although the realisations the quarter were better as the product mix changed a bit due to shift in demand for some products.

The realisations of the company are lesser compared to peers as the company not only sells ABS but also has polystyrene and SAN, and these generate lower realisations.

The management believes the spreads have normalised now on a global level. They expect to continue to benefit from operating leverage and increase in volumes and feels the current margins are sustainable.

The company is also working on reducing their power and fuel costs. They plan to set up projects which will help them in reducing these expenses by 30-40%, starting from Q2-Q3FY25 and fully flowing in from FY26.

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Stock Rating Scale	Absolute Return
BUY	>20%
ACCUMULATE	12% to 20%
HOLD	5% to 12%
NEUTRAL	-5% to 5%
REDUCE	-5% to -12%
SELL	<-12%

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