

Rating matrix

Rating	: Buy
Target	: ₹ 975
Target Period	: 12-18 months
Potential Upside	: 24%

What's changed?

Target	Changed from ₹ 1150 to ₹ 975
EPS FY19E	Changed from ₹ 40.1 to ₹ 42.1
EPS FY20E	Changed from ₹ 45.9 to ₹ 48.8
Rating	Unchanged

Key financials

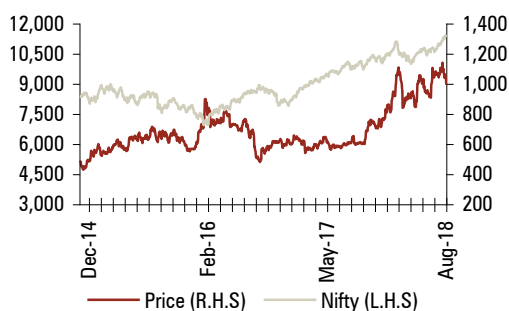
₹ Crore	FY17	FY18E	FY19E	FY20E
Revenues	1,486.2	1,895.3	2,248.6	2,442.9
EBITDA	127.7	130.5	143.0	169.2
Net Profit	69.3	66.2	74.0	85.8
EPS (₹)	39.4	37.7	42.1	48.8

Valuation summary

	FY17	FY18E	FY19E	FY20E
P/E	19.9	20.9	18.7	16.1
Target P/E	24.7	25.9	23.2	20.0
EV / EBITDA	12.3	11.1	10.5	8.7
P/BV	2.4	2.1	2.0	1.8
RoNW (%)	11.8	10.3	10.5	11.0
RoCE (%)	12.9	14.0	13.6	14.6

Stock data

Particular	Amount
Market Capitalization (₹ Crore)	1,382.2
Total Debt (FY18) (₹ Crore)	103.9
Cash and Investments (FY18) (₹ Crore)	40.4
EV (₹ Crore)	1,445.8
52 week H/L	1168/681
Equity capital (₹ Crore)	17.6
Face value (₹)	10.0

Price performance

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Ineos Styrolution (STYABS)

₹ 786

Volumes deliver, recovery in margins awaited

- Ineos reported a decent Q1FY19 performance on the volume front. The margins were also stable YoY. However, they were down QoQ. Volumes increased 18% YoY to 44 KT vs. 37.3 KT in Q1FY18
- Revenues during the quarter increased 32.5% YoY and were at ₹ 595.1 crore vs ₹ 449.2 crore in Q1FY18. Gross margins also increased to ₹ 26.5/kg in Q1FY19 from ₹ 21.7/kg in Q1FY18 (last year there was an inventory loss). ABS segment EBIT came in at ₹ 33.5 crore (increase 134% YoY) vs. ₹ 14.3 crore in Q1FY18 whereas PS segment reported a loss of ₹ 0.6 crore
- Subsequently, the profitability increased 518% YoY and came in at ₹ 16.9 crore mainly due to inventory losses in Q1FY18

Traction in demand coupled with capacity expansion to drive volumes

The quarter witnessed robust demand growth from automobiles and consumer durables. As a result, Ineos' consolidated volumes increased 18% YoY to 44 KT vs. 37.3 KT in Q1FY18. On the capacity expansion front, the management expects the project to get completed by end of Q1FY20. The increase in ABS capacity from 110 KTPA to 144 KTPA in FY20 at a capex of ₹ 130 crore is expected to enable Ineos to cater to increasing industry demand. Also, the evaluation of engineering studies related to the company's long term plan to double its current ABS capacity is under process. The capacity expansion coupled with robust growth in consuming segments is expected to augur well for total volumes. We estimate volumes at 170.5 KTPA and 187.8 KTPA in FY19E and FY20E, respectively.

Recovery in margins, to remain key decider for profitability

During the quarter, Ineos had to procure rubber required for production of ABS from Korea and Thailand at premium prices mainly on account of a shortage in local markets. Also, mechanical failure in Polystyrene plant led to a shutdown affecting operations. As a result of the same and inventory gain in Q4FY18 (₹ 1.3/kg), Ineos' gross margins fell from ₹ 32.4/kg to ₹ 26.2/kg on a QoQ basis. We expect gross margins at ₹ 27-28 per kg in coming quarters with reasonable stability in above cited lagging factors. Ineos' ABS segment, which has specialised products, is highly profitable & contributes majority to earnings. However, the polystyrene segment, which is highly commoditised, is a very low margin business. Going forward, the company intends to focus more on the specialty products portfolio i.e ABS segment. On the segmental profitability front, we expect ABS EBIT to increase at 13.5% CAGR in FY18-20E at ₹ 143.7 crore in FY20E whereas PS EBIT is expected at ₹ 8.6 crore in FY20E.

Limited competition, parentage expertise to create space for growth

Ineos' strong parentage (a global leader in styrenics) is expected to ensure that the company offers best products and solutions to customers giving it a competitive edge in the markets. Also, Ineos' specialty products portfolio and its strategy to strengthen its position in focus industries like automotive, household, etc, is expected to lead to steady volume and profit growth, going forward. We believe Ineos, a quality play, can be held with long term investment horizon given the strong demand and profit drivers in the years to come. Ineos is currently trading at 16x FY20E EPS of ₹ 48.8. We value Ineos at 20x FY20E EPS to arrive at a target price of ₹ 975.

Financial summary

Profit and loss statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Revenue	1486.2	1895.3	2248.6	2442.9	
Growth (%)	-6.2	27.5	18.6	8.6	
(Inc.)/(Dec.) in stock in trade	-72.2	34.5	6.7	0.0	
Raw material Costs	1168.9	1443.7	1775.2	1913.1	
Purchase of Products	0.0	0.0	0.0	0.0	
Employee Costs	50.4	54.9	61.6	67.1	
Other Expenditure	211.4	231.6	262.1	293.5	
Op. Expenditure	1,358.5	1,764.8	2,105.6	2,273.7	
EBITDA	127.7	130.5	143.0	169.2	
Growth (%)	34.7	2.2	9.5	18.3	
Depreciation	25.3	25.4	26.1	32.5	
EBIT	102.4	105.1	116.9	136.7	
Interest	6.1	9.0	7.7	10.8	
Other Income	4.0	7.0	3.9	4.0	
PBT	100.3	103.1	113.1	129.9	
Growth (%)	66.6	2.8	9.7	14.9	
Tax	31.0	36.9	39.1	44.2	
Reported PAT	69.3	66.2	74.0	85.8	
Growth (%)	8.6	-4.5	11.7	15.9	
EPS	39.4	37.7	42.1	48.8	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Source of Funds					
Equity Capital	17.6	17.6	17.6	17.6	
Preference capital	0.0	0.0	0.0	0.0	
Reserves & Surplus	569.5	626.9	689.5	761.8	
Shareholder's Fund	587.0	644.5	707.1	779.4	
Loan Funds	208.9	103.9	153.9	153.9	
Deferred Tax Liability	22.5	19.8	21.8	26.8	
Minority Interest	0.0	0.0	0.0	0.0	
Source of Funds	818.7	768.3	882.9	960.2	
Application of Funds					
Gross Block	272.2	289.5	294.5	424.5	
Less: Acc. Depreciation	53.2	75.7	102.2	136.2	
Net Block	219.0	213.7	192.2	288.3	
Capital WIP	17.7	15.3	80.3	10.3	
Total Fixed Assets	236.7	229.0	272.5	298.6	
Investments	0.9	0.8	0.9	0.9	
Inventories	320.0	299.9	400.4	435.0	
Debtor	227.5	244.9	369.6	401.6	
Cash	16.1	40.4	31.6	68.0	
Loan & Advance, Other CA	254.0	238.4	223.4	208.4	
Total Current assets	817.6	823.6	1025.0	1113.0	
Current Liabilities	230.9	271.6	400.4	435.0	
Provisions	5.6	13.5	15.2	17.3	
Total CL and Provisions	236.5	285.2	415.6	452.3	
Net Working Capital	581.0	538.4	609.5	660.7	
Miscellaneous expense	0.0	0.0	0.0	0.0	
Application of Funds	818.7	768.3	882.9	960.2	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Profit after Tax	69.3	66.2	74.0	85.8	
Add: Depreciation	25.3	25.4	26.1	32.5	
Add: Others	4.1	-2.7	2.0	5.0	
Cash Profit	98.7	88.9	102.1	123.2	
Increase/(Decrease) in CL	17.4	48.4	130.4	36.7	
(Increase)/Decrease in CA	-144.4	18.3	-210.2	-51.6	
CF from Operating Activities	-28.3	155.6	22.3	108.4	
Purchase of Fixed Assets	18.7	17.7	69.6	58.5	
(Inc)/Dec in Investments	-0.8	0.1	-0.1	0.0	
Others	0.0	0.0	0.0	0.0	
CF from Investing Activities	-19.4	-17.6	-69.7	-58.5	
Inc/(Dec) in Loan Funds	39.5	-104.9	50.0	0.0	
Inc/(Dec) in Sh. Cap. & Res.	-0.4	-8.8	0.0	0.0	
Less: Dividend Paid	0.0	0.0	11.4	13.5	
CF from financing activities	39.1	-113.7	38.6	-13.5	
Change in cash Eq.	-8.7	24.3	-8.8	36.4	
Op. Cash and cash Eq.	24.7	16.1	40.4	31.6	
Cl. Cash and cash Eq.	16.1	40.4	31.6	68.0	

Source: Company, ICICI Direct Research

Key ratios		₹ Crore			
(Year-end March)	FY17	FY18	FY19E	FY20E	
Per share data (₹)					
Book Value	333.8	366.5	402.1	443.2	
Cash per share	9.1	22.9	18.0	38.7	
EPS	39.4	37.7	42.1	48.8	
Cash EPS	53.8	52.1	56.9	67.2	
DPS	4.0	4.0	5.5	6.5	
Profitability & Operating Ratios					
EBITDA Margin (%)	8.6	6.9	6.4	6.9	
PAT Margin (%)	4.7	3.5	3.3	3.5	
Fixed Asset Turnover (x)	6.3	8.3	8.3	8.2	
Inventory Turnover (Days)	98.2	72.2	65.0	65.0	
Debtor (Days)	69.8	59.0	60.0	60.0	
Current Liabilities (Days)	70.9	65.4	65.0	65.0	
Return Ratios (%)					
RoE	11.8	10.3	10.5	11.0	
RoCE	12.9	14.0	13.6	14.6	
RoIC	13.1	14.9	14.1	15.8	
Valuation Ratios (x)					
PE	19.9	20.9	18.7	16.1	
Price to Book Value	2.4	2.1	2.0	1.8	
EV/EBITDA	12.3	11.1	10.5	8.7	
EV/Sales	1.1	0.8	0.7	0.6	
Leverage & Solvency Ratios					
Debt to equity (x)	0.4	0.2	0.2	0.2	
Interest Coverage (x)	16.9	11.7	15.3	12.7	
Debt to EBITDA (x)	1.6	0.8	1.1	0.9	
Current Ratio	3.5	2.9	2.5	2.5	
Quick ratio	2.1	1.8	1.5	1.5	

Source: Company, ICICI Direct Research

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