

## Press Release

No. 150/2012  
24 October 2012

### TRIS Rating Affirms Company & Issue Ratings of "IVL" at "A+/Stable"

TRIS Rating Co., Ltd. has affirmed the company rating of Indorama Ventures PLC (IVL) and the ratings of IVL's senior debentures at "A+" with "stable" outlook. The ratings reflect the company's strong position as a leading worldwide producer in the polyester value chain, its cost competitiveness, and reliable production base due to vertical integration, plus its geographically diverse customer base which spans the globe. The ratings also take into consideration the capability and experience of the management team as well as IVL's access to key technologies. However, the ratings are constrained by the volatile nature of the petrochemical industry, uncertain global economy, oversupply of purified terephthalic acid (PTA) and polyethylene terephthalate (PET) in Asia, and the sizable investments that IVL has made in search of growth. The investments may pressure the company's balance sheet. The "stable" outlook reflects the expectation that IVL will be able to sustain its ability to generate cash and benefit from its efforts to diversify and become vertically integrated. The company is also expected to maintain its financial strength and sufficient liquidity to cushion the volatility inherent in the petrochemical industry.

TRIS Rating reported that IVL, formerly named Beacon Global Co., Ltd., was established by the Lohia family on 21 February 2003 as a holding company. IVL was listed on the Stock Exchange of Thailand (SET) on 5 February 2010, diluting the shareholding of the Lohia family from 92.9% to 66.4% at present. The company invests mainly in businesses along the polyester value chain, comprising the production of PTA, PET, polyester fiber and yarn, and recently, monoethylene glycol (MEG). Currently, IVL's total installed capacity is 6,622 thousand tonnes per annum (KTA), comprising 550 KTA of MEG equivalent, 1,761 KTA of PTA, 3,433 KTA of PET, and 878 KTA of polyester fiber equivalent. Along the polyester value chain, PTA and MEG are the major feedstocks used in producing PET and polyester fiber. PET is used to produce a wide range of packaging for beverages, food, personal and home care products, and pharmaceuticals, as well as other consumer and industrial products. Polyester products cover a broad range of uses across many industries, such as apparel, home textiles, non-wovens, technical textiles, and automotive. The growth prospects for PET and polyester fiber are sound, because their properties allow them to substitute for traditional materials, i.e., glass, aluminum, and cotton fiber. PET and polyester fiber are preferable due to their relatively superior characteristics, recyclability, and less cost. These properties give PET and polyester fiber advantage over competing material and help sustain their demand during economic downturns.

TRIS Rating said, IVL's experience in the polyester value chain dates back in 1995, when Indorama Polymers PLC (IRP) started a PET plant in Lopburi province (Thailand). With the company's strategy to be a global leader in the polyester value chain, IVL has started aggressively expanding its operations since 2008. IVL has made brownfield acquisitions and also developed greenfield projects. The aim of the expansion efforts was to vertically integrate and diversify the production base and markets in which IVL produced and sold its products. The most recent greenfield project is the PET plant in Nigeria, Africa, which commenced commercial operation in July 2012. Between the second half of 2011 and the first half of 2012, IVL spent approximately Bt35,497 million to acquire fiber, PET and MEG businesses, and invest in PTA business through the joint venture in Indonesia. The company's performance after the acquisitions will be closely monitored.

At present, IVL's facilities are located in 15 countries across four continents: Asia, Europe, North America, and Africa. IVL's successful growth record is owed in part to its low-cost acquisition of distressed assets, intense management commitment to production efficiency, and ability to leverage the various key technologies in the polyester value chain. In addition, IVL's presence in key geographic regions enhances its access to a worldwide customer base, which in turn yields high production utilization. IVL has a reliable manufacturing base. The reliability of IVL's production is supported by two factors: secure sources of feedstock via captive use and virtual integration through co-location with major suppliers. These factors enable IVL to offer competitive prices to customers, due to lower production and logistics costs. Its production facilities are located in several regions. The wide placement of its production facilities help the company overcome trade barriers in some competitive markets, such as North America and Europe. Moreover, by being active throughout the entire polyester value chain, from PTA and MEG to PET and polyester, IVL's profitability is partly enhanced and stabilized.

As operating in the petrochemical industry, IVL is exposed to the risk associated with industry cyclicity as well as fluctuations in commodity prices. New production capacity and an uncertain global economy have negatively impacted demand, selling prices, and margins. However, IVL's business model of fully vertical integration by producing MEG, PTA, and its derivative products plus the presence of plants

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across the globe, should provide some cushion against the fluctuations. Since IVL is vertically integrated, its feedstock is partly secured at a low cost, which gives it a competitive advantage.

IVL's financial profile has weakened, but it is expected to improve in the medium term. Total revenue increased by 16.5% year-on-year (y-o-y) from Bt91,853 million in the first half of 2011 to Bt107,046 million in the first half of 2012. The increase reflected higher sales volumes as a result of asset acquisitions during 2011. However, operating income before depreciation and amortization, as percentage of sales, declined from 8.2% in 2011 to 5.1% in the first half of 2012. The drop was mainly due to the intense competition among PTA producers in Asia, topped by the softer margins for PET and polyester fiber worldwide. The company's profitability in terms of earnings before interest, tax, depreciation and amortization (EBITDA) per tonne of production volume dropped from US\$128 per tonne in 2011 to US\$80 per tonne for the first six months of 2012. The consolidation of a profitable MEG business in the United States (US) into IVL's portfolio in April 2012 helped support the company's financial performance. The MEG business in North America turned an impressive EBITDA margin of more than 35%. In the coming year, IVL's operating margin will remain under pressure because of the continual oversupply of PTA in Asia and the unresolved economic crisis in Europe. The company generated funds from operations (FFOs) of Bt14,022 million and Bt5,686 million in 2011 and the first half of 2012, respectively. The EBITDA interest coverage ratio declined from 7.6 times in 2011 to 3.6 times in the first half of 2012, reflecting higher interest expenses. However, the company's liquidity profile is sound. At the end of June 2012, the company maintained a cash balance of Bt8,415 million and had an available credit line of approximately Bt15,800 million spreading over its subsidiaries to support its working capital.

IVL's balance sheet weakened due to the investments it made during 2011 through the first half of 2012. Total debt increased from Bt32,068 million in 2010 to Bt86,273 million at the end of June 2012. The rise in debt included debt-financed investments, the consolidation of the debt of acquired subsidiaries, and greater working capital financing. As a result, the total debt to capitalization ratio increased from 49.9% at the end of 2010 to 59.3% at the end of June 2012. Due to the current unfavorable economic conditions, the company may suspend any further acquisition plans until after 2014. However, IVL will continue to expand its existing projects as planned. This organic growth will boost IVL's total capacity to approximately 8,000 KTA by 2014. A temporary halt in IVL's investment plans will help improve the company's capital structure. TRIS Rating expects the debt to capitalization ratio to be in the range of 50%-55% going forward, said TRIS Rating. – End

## **Indorama Ventures PLC (IVL)**

### **Company Rating:**

Affirmed at A+

### **Issue Ratings:**

IVL160A: Bt210 million senior debentures due 2016	Affirmed at A+
IVL160B: Bt2,690 million senior debentures due 2016	Affirmed at A+
IVL174A: Bt1,500 million senior debentures due 2017	Affirmed at A+
IVL174B: Bt2,500 million senior debentures due 2017	Affirmed at A+
IVL180A: Bt98 million senior debentures due 2018	Affirmed at A+
IVL180B: Bt1,302 million senior debentures due 2018	Affirmed at A+
IVL194A: Bt1,500 million senior debentures due 2019	Affirmed at A+
IVL210A: Bt37 million senior debentures due 2021	Affirmed at A+
IVL210B: Bt3,163 million senior debentures due 2021	Affirmed at A+
IVL224A: Bt1,250.5 million senior debentures due 2022	Affirmed at A+
IVL224B: Bt2,649.5 million senior debentures due 2022	Affirmed at A+

### **Rating Outlook:**

Stable

**TRIS Rating Co., Ltd./www.trisrating.com**

Contact: santaya@trisrating.com, Tel: 0-2231-3011 ext 500/Silom Complex Building, 24th Floor, 191 Silom Road, Bangkok 10500, Thailand

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