Atul Products Limited

August 01, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long term / Short term bank facilities	125.00	CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Reaffirmed
Total bank facilities	**125.00 (₹ One hundred twenty-five crore only)**		

Details of facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Atul Products Limited (APL) continue to draw significant comfort from its strong parentage being a wholly owned subsidiary of Atul Limited (Atul; rated CARE AA+; Stable/ CARE A1+), whereby the entire project cost of APL's ongoing greenfield caustic-chlorine and related captive power plant is envisaged to be financed through fund infusion by Atul. The ratings also continue to derive comfort from Atul's experience in setting-up and operating caustic-chlorine manufacturing facilities, envisaged synergies from the captive power plant, location benefits, some captive consumption of APL's products by Atul and good industry scenario.

The ratings, however, continue to be constrained by inherent risks associated with timely implementation and stabilization of the green-field project whereby the cost of its project has increased from the initial estimates, post implementation risk in the backdrop of inherent cyclicality associated with the caustic-chlorine industry and requirement of continuous compliance with stringent pollution control norms.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Timely implementation and commencement of commercial operations from the ongoing project
- Total operating income (TOI) exceeding ₹450 crore while achieving PBILDT margin of around 40%

Negative factors – Factors that could lead to negative rating action/downgrade:

- Change in stance of support to APL from Atul; and/or APL not remaining a majority-owned subsidiary of Atul
- Significant time and cost overrun in the ongoing project adversely impacting its leverage and debt coverage indicators
- Inability to ramp up its scale of operations marked by annual TOI of less than ₹300 crore post commissioning of project
- PBILDT margin of less than 30% on a sustained basis and its adverse impact on its debt coverage indicators

Detailed description of the key rating drivers

Key rating strengths

Strong parentage of Atul: APL draws significant comfort from its strong parentage, being a wholly-owned subsidiary of Atul, whereby the entire project cost of APL's ongoing greenfield caustic-chlorine and related captive power plant is envisaged to be financed through fund infusion by Atul. Atul has one of the biggest integrated chemical complexes in India with a well-diversified product portfolio divided in two segments viz. Life Science Chemicals (LSC) and Performance & Other Chemicals (POC) catering to the requirement of diversified industries like textile, paints & coatings, adhesives, dyestuff, agriculture, fragrance & flavours, cosmetic, personal care, tyre, paper, plastic, pharmaceutical (API and API intermediates), aerospace, composites, construction, glass, etc. The credit risk profile of Atul is very strong.

Experience of Atul in setting-up and operating caustic-chlorine manufacturing facilities: Atul already has an operational caustic-chlorine manufacturing facility of 125 Tonne Per Day (TPD) which it had previously set-up at its Valsad plant. This experience of Atul is expected to help APL during implementation and stabilization of its project as its entire management team comprises of personnel from Atul. Experienced professionals with rich experience of around 20-30 years in their respective areas of operations have been deputed on the Board of Directors of APL which is expected to provide good insights to APL for effective decision making. According to the company, all the required approvals for setting up the project in APL have been received.

Entire project cost being funded by Atul: As against earlier envisaged project cost for the ongoing greenfield project of ₹818 crore, the total cost of project has now been revised upwards to around ₹964 crore (including GST of ₹147 crore on capital goods and services). Also, it has envisaged additional ₹71 crore towards working capital margin requirement post commissioning the project. Entire cost of the project along-with working capital margin is proposed to be entirely funded by equity capital, preference share capital and extension of unsecured loan by Atul. APL avails capex LCs out of its sanctioned limit from the bank for import of plant and machineries for the project, which on maturity is being settled with the infusion of funds by Atul.

Location benefits for the project along with some envisaged captive consumption by Atul: The project in APL is being set-up on the lease-hold land of Atul at Valsad which is expected to provide synergetic benefits for both companies. Out of total

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

capacity of 300 TPD of caustic-chlorine of APL, around 200 TPD is envisaged to be in the form of lye while the remaining 100 TPD is expected to be in the form of flakes. Caustic soda in lye form is planned to be entirely sold in the market whereas 1/3 of the caustic soda flakes is expected to be sold to Atul and balance would be sold in domestic as well as export markets. Similarly, part of the chlorine to be produced by APL would be consumed by Anaven LLP which has set-up a project for manufacturing Monochloroacetic Acid (MCA) in Joint Venture (JV) between Atul and Nouryon. Gradually, supplies from APL to Atul is expected to go up. Further, as most of the chlor-alkali manufacturers are located at Dahej SEZ whereas there are lot of chemical companies in South Gujarat, it entails high freight cost. Accordingly, APL is expected to tap the requirement of caustic-chlorine for the chemical companies in South Gujarat due to its greater proximity to them.

Envisaged synergies from the planned captive power plant; albeit susceptible to adverse movement in coal prices: Power cost is one of the most critical cost components for manufacturing caustic-chlorine. During electrolysis of salt, there is high power consumption leading to nearly 40% contribution of power cost in total cost of production of caustic soda. APL is setting up a 50 MW captive power plant (CPP) along-with its caustic soda manufacturing facility. Out of total 50 MW CPP, around 35-36 MW capacity would be sufficient to run the caustic soda plant at full capacity. Having a CPP is expected to result in economical cost of power with greater reliability in the long run. However, on account of high prices of imported coal prevailing presently, the cost of power generation from CPP is likely to be costly during initial phase, for which APL can avail power from the grid.

Liquidity: Adequate

Liquidity of APL principally derives comfort from its parentage of Atul which has large liquidity. Atul has already invested funds of ₹365 crore (₹5 crore by way of equity fusion and ₹360 crore by way of loans) in APL by June 30, 2022. Atul is planning to invest the balance funds by end-FY23. APL is expected to repay the said loan entirely in five equal annual instalments starting from March 31, 2024 and no further debt is expected to be availed by it thereafter. Atul had significant liquidity of ₹729 crore in the form of cash, investments in liquid & arbitrage mutual funds and bonds; along with ₹647 crore in the form of investments in quoted equity shares (mainly in Pfizer Limited) as on March 31, 2022.

Key rating weaknesses

Inherent project risks associated with timely implementation and stabilization of the green-field capex: APL's project is expected to achieve Commercial Operations Date (COD) by January 2023 as against its earlier estimate of December 2022. The project execution work is handled by an in-house team of APL which has planned to execute the project by awarding various packages for the project work to reputed contractors. APL has placed purchase orders for nearly 73% of the total project works by June 30, 2022. However, it is susceptible to the inherent risks associated with the implementation of such a large project within envisaged cost and timelines. Already, its cost of project has escalated to around ₹964 crore as against earlier estimates of ₹818 crore. Furthermore, to be eligible for lower income tax rate applicable for newly set-up companies, APL is required to achieve COD for the project latest by March 2023. Accordingly, timely completion of the project would be critical for achieving overall project returns.

Cyclicality associated with caustic-chlorine industry: Profitability of caustic soda manufacturing companies is linked to the prevailing electro – chemical unit (ECU) realisations. Cyclical downturns, or adverse variability in the demand-supply balance, may drag down ECU realisations for caustic soda players. After witnessing a cyclical downturn during FY20 and FY21, ECU realisations significantly improved in FY22 owing to low base effect and pick-up in demand from user industries. However, going forward large size caustic soda capacities are expected to come onstream by various industry players (including by APL), which could again put pressure on the ECU realisations.

Requirement of compliance with stringent pollution control and fire safety norms: Operations of APL are subject to various pollution and fire safety related regulatory compliances in a stringent manner. Also, pollution related norms are evolving day by day in India. Accordingly, continuous adherence to defined pollution control and fire safety norms are imperative for seamless operations. Its parent, Atul is regularly incurring large size capex for compliance with defined pollution control norms and has not encountered any adverse observations/ closure notice from pollution control departments for a long period of time. Also, over the last many years, Atul had not encountered any incident of fire at its plants except one instance of fire reported in April 2022 at one of the pharma plants of Atul. However, there were no casualties or injuries in the incident and the fire was brought under control in a very short span of time with limited damage to the said plant while other plants remained unaffected.

Analytical approach: Standalone along-with factoring strong linkages with its parent Atul which has demonstrated experience in the caustic chlorine operations. Also, entire project cost of APL is being funded by way of equity shares/preference shares/ unsecured loans from Atul.

Applicable criteria

Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Liquidity Analysis of Non-financial sector
Rating Methodology – Manufacturing Companies
Rating Methodology – Project Stage Companies
Rating Methodology- Notching by factoring linkages in Ratings
Financial ratios – Non-Financial sector

About the company
APL is a 100% subsidiary of Atul. APL has been incorporated to take up a green-field project to set-up manufacturing facility for 300 TPD of caustic-chlorine along-with 50 MW of coal-based captive power plant. The manufacturing facility is being set-up within Atul's campus on land given on lease by Atul to APL. The project is expected to achieve COD by January 2023 as against its earlier estimate for December 2022. Total cost of the project is envisaged at around ₹964 crore (as against its earlier estimate of ₹818 crore) with an additional ₹71 crore for working capital margin which is planned to be funded through equity capital of ₹5 crore, preference capital of ₹258 crore and extension of unsecured loan of ₹772 crore by Atul.

Brief Financials: Not applicable as APL is presently a project stage entity

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instruments: Please refer Annexure-3

Complexity level of various instruments rated for this company: Please refer Annexure-4

Annexure-1: Details of facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	110.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	15.00	CARE A-; Stable / CARE A2+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based/Non-fund-based-LT/ST	LT/ST*	110.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Dec-21)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	15.00	CARE A-; Stable / CARE A2+	-	1)CARE A-; Stable / CARE A2+ (31-Dec-21)	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Sr. No	Name of instrument	Detailed explanation
1	Bank Facilities	
	Financial covenants	TOL/TNW not to exceed 0.50 times (treating USL from Atul Ltd. as quasi-equity)
		Debt / EBITDA not above 1.00 times
	Non-financial covenants	Atul Ltd. to hold 100% stake in the company during the currency of loan with bank

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

Media Contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst Contact
Name: Hardik Shah
Phone: +91-79-4026 5620
E-mail: hardik.shah@careedge.in

Relationship Contact
Name: Deepak Prajapati
Phone: +91-79-4026 5602
E-mail: deepak.prajapati@careedge.in

About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

****For detailed Rationale Report and subscription information, please visit www.careedge.in**