Atul Limited

August 03, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	127.00 (Enhanced from 76.50)	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short-term bank facilities	350.50 (Reduced from 355.50)	CARE A1+ (A One Plus)	Reaffirmed
Total bank facilities	**477.50 (₹ Four hundred seventy-seven crore and fifty lakh only)**		
Commercial paper	-	-	Withdrawn
Total instruments	**0.00 (₹ only)**		

Details of facilities in Annexure-1

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Atul Limited (Atul) continue to derive strength from wide experience of its promoters along with its competent management, established track record and strong market position in the chemical industry with diversified product portfolio, wide end-user industries along with diversified clientele, leadership position in some of its high-value specialty products and strong research and development (R&D) setup. The ratings also take cognisance of its healthy profitability, low leverage, comfortable debt coverage indicators and strong liquidity.

The above rating strengths are, however, partially tempered by its exposure to raw material price volatility (which are linked to international crude oil prices) as well as foreign exchange movement, its dependence on China for key intermediates as well as competition from it for some of its finished products along with presence in a competitive and cyclical chemical industry, which is also exposed to stringent environmental compliance and is susceptible to accidental fire.

CARE Ratings Limited (CARE Ratings) has withdrawn the outstanding rating assigned to the commercial paper (CP) issue of Atul with immediate effect based on Atul's request and there being no CP outstanding as on date.

Rating sensitivities

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

- Greater geographical diversification of its manufacturing operations compared with very high dependence at one location currently.
- Increase in the scale of operations while maintaining its PBILDT margin above 20% on a sustained basis through greater focus on value-added products, fructification of envisaged benefits of its capex plans and greater retail presence thereby largely insulating its profitability from raw material price volatility.

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

- Any large debt-funded capex/acquisition, which deteriorates its total debt/PBILDT beyond 1x on a sustained basis.
- Any change in prevailing pollution control/environmental norms and/or regulatory ban on production and sales of certain products thereby significantly impacting its business and profitability.

Detailed description of the key rating drivers

Key rating strengths

Wide experience of the promoters in chemical industry along-with competent management: Atul is presently headed by Sunil Lalbhai, the third-generation entrepreneur, Chairman and Managing Director, who is a technocrat, and is supported by a well-qualified and experienced senior management. The Board of Atul comprises distinguished personalities having very rich experience in the field of chemicals, petrochemicals, banking and finance, taxation, law, etc. Out of the total 11 directors on Atul's Board, there are six independent directors. Atul's Board committees, such as Audit, Risk Management, Remuneration, Corporate Social Responsibility (CSR), etc., are chaired by independent directors. As a part of its CSR initiative, Atul spent ₹14.89 crore towards 32 social welfare programmes during FY22 (refers to the period April 1 to March 31). T R Gopi Kannan, whole-time director and CFO of the company, is a Fellow Member of the ICAI, ICMAI and ICSI; and has a Post Graduate Diploma in Management from IIM-Ahmedabad. Furthermore, Atul is an R&D-focused chemical company, and currently employs more than 1,400 post-graduates and around 90 PhDs.

Diversified product portfolio having wide user industry application along with geographically diversified clientele: Atul's operations in the chemical sector are classified into two broad segments, viz., Performance and other Chemicals (POC) and Life Science Chemicals (LSC), catering to the requirement of diversified industries, including textile, paints and coatings, adhesives, dyestuff, agriculture, fragrance and flavours, cosmetic, personal care, tyre, paper, plastic, pharmaceutical, aerospace, composites, construction, glass, etc. Out of the two segments, contribution of POC in net sales stood at 71% during FY22 (refers to the period April 1 to March 31), wherein polymers, aromatics and colours were the major contributors, while that of LSC stood at 29% of the net sales, wherein crop protection was the major contributor. Over the years, Atul has emerged as a prominent player in

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

various products manufactured by it (including para-Cresol, para Anisic Aldehyde, Resorcinol). It also has a strong clientele including some global chemical majors. Furthermore, its well-diversified product-range helps Atul in mostly offsetting the adverse performance of few product lines in some years through better performance of the remaining products in those years.
Furthermore, Atul benefits from its geographically diversified clientele across Asia, Europe, North America, South America and Africa, wherein it serves about 4,000 customers across 75 countries through its various marketing subsidiaries. Atul's management has been making efforts to increase its retail sales where profitability margins are comparatively better; however, the contribution of retail sales to its net sales stood low at 9% in FY22.

Presence in research-oriented specialty chemicals leading to healthy profitability: Earlier, Atul was one of the largest dyestuff manufacturing companies in India; however, through its strong R&D initiatives, joint ventures (JV) with multinational companies and acquisitions, Atul has expanded its product portfolio significantly over the last few years in the areas of aromatics, crop protection, polymers and pharma intermediates, which are speciality chemicals as compared to conventional dyestuff products. This shift in product mix has led to better profitability, which has also shown greater degree of resilience compared to the scenario of around a decade back. During FY22, the LSC segment witnessed improvement in sales by 20%, while the POC segment witnessed improvement in the sales by 44% on y-o-y basis leading to improvement in consolidated total operating income (TOI) of the company by 36% on y-o-y basis to ₹5,092 crore during FY22, mainly due to higher realisation driven by elevated prices of its crude-linked raw materials. However, the PBILDT margin of Atul moderated to 18.16% during FY22 on the back of higher input prices and crude oil prices in the global market compared with favourable raw material prices in FY20 and FY21.
During Q1FY23, Atul witnessed significant improvement in the sales by 36% on y-o-y basis due to higher demand from end-use industries. However, the rise in the inputs costs in Q1FY23 along-with write-off of ₹35 crore pertaining to an accidental fire event during April 2022, has led to further moderation in its operating profitability marked by PBILDT margin of 17.85% during Q1FY23. CARE Ratings expects Atul to earn PBILDT margin of around 18% during FY23.

Comfortable leverage with strong debt coverage indicators: On a standalone basis, Atul only had short-term working capital and cash credit loans on its books as on March 31, 2022. Also, on a consolidated basis, its leverage stood at a very comfortable level with an overall gearing of 0.05x as on March 31, 2022. Its debt coverage indicators also stood very strong marked by interest coverage of 100.83x and total debt/PBILDT of 0.26x during FY22. On the back of envisaged healthy generation of operating cash flows and funding of its planned capex through its available strong liquidity, CARE Ratings expects Atul's overall gearing and total debt/PBILDT to remain very comfortable at below 0.10x and 0.25x as on March 31, 2023.

Liquidity: Strong
The liquidity of Atul is strong, marked by healthy cash accruals against negligible term debt repayment obligations. With low gearing level, the company has sufficient headroom to raise an additional debt for its capex, however, it is expected to fund its entire capex requirement from its healthy internal accruals. The utilisation of its fund-based working capital limits remained less than 3% over the trailing 12 months ended June 2022. Accordingly, its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year. The company had significant liquidity of ₹729 crore in the form of cash, investments in liquid and arbitrage mutual funds, bonds along with ₹647 crore in the form of investments in quoted equity shares (mainly in Pfizer Limited) as on March 31, 2022. Furthermore, the company has been regularly generating healthy cash flow from operations. Its current ratio was also very strong at 2.62x as on March 31, 2022, and the operating cycle remained stable at 78 days during FY22.

Key rating weaknesses
Exposure to volatility in crude oil-based raw material prices along-with presence in a competitive and cyclical chemical industry: Majority of raw materials of Atul are derivatives of crude oil; hence, the prices of its raw materials vary with the fluctuation in international crude oil prices. For a few products, where Atul has a large market share, the increase in raw material price can be largely passed on to its customers, although with some time lag. However, Atul's profitability is susceptible to fluctuation in international crude oil prices on many of its product segments. Over a period, with greater product diversification, Atul has demonstrated relatively good resilience against crude oil price volatility. Atul also faces competition from China in its aromatics sub-segment, however, it has fairly good market presence in two key products of this segment, i.e., para-Cresol and para Anisic Aldehyde. Furthermore, Atul is also dependent on China for certain key intermediates required by its crop protection and dye-stuff sub-segments. During FY22, around 37% of its total raw material requirement, i.e., around ₹1,005 crore was imported and around 20%-25% of the same was procured from China. During FY22, due to rise in crude prices and higher freight costs, the operating profitability of Atul was impacted marked by reduction in its PBILDT margin to 18.16% compared with 24.38% during FY21. Also, chemical industry is highly competitive and susceptible to cyclicality in demand, which is linked to various domestic and global factors.

Exposure to foreign exchange rate fluctuations: Atul has geographically diversified sales with around 50% share of exports in its TOI, thereby exposing it to foreign exchange rate fluctuations. However, it enjoys benefit of partial natural hedge with imports of around 37% of its raw material requirement. Furthermore, net exports are hedged using forward contracts and foreign currency option contracts. In this regard, Atul's management has also articulated to have adopted an approach whereby net export is being dynamically hedged as per market conditions and risk management guidelines laid down in the risk management policy of the company, thereby mitigating the foreign exchange rate fluctuation risk to a large extent. As on March 31, 2022, its net unhedged foreign exchange exposure stood at ₹129.39 crore.

Envisaged large-size capex: Atul, on a consolidated basis, has envisaged to incur large-size capex of around ₹500-550 crore per annum in the next two years-ending FY24 towards increasing manufacturing capacity of products in polymers, colour and aromatics segments, setting up methyl chloro-phenoxy acetic acid and dextromethorphan facilities, setting up of caustic soda plant along with coal-based power plant for meeting its captive requirement of power and caustic soda, various debottlenecking projects, routine capex and towards meeting evolving environmental compliance norms.
Atul has set up a wholly-owned subsidiary company in the name of Atul Products Limited for establishing the above-mentioned caustic soda and captive coal-based power plants. Atul is not expected to avail any major debt towards its capex plans and all future capex in the medium-term is also expected to be largely funded from its internal accruals/ available liquidity. Atul's ability to implement these projects in a timely manner without major cost overruns and generate envisaged returns thereof to strengthen its competitive position in key products/markets would be crucial for its further growth prospects as well as earning healthy return on capital employed (ROCE).

Compliance with stringent pollution control and fire safety norms, and susceptibility to regulatory risks: Being present in the chemical industry, the operations of Atul are subject to various environment-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 norms are mandatory for seamless operations. 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. Its plants at Valsad and Ankleshwar are well-equipped for effective treatment and discharge of effluents, such as waste-water, gaseous emission, hazardous and non-hazardous solid waste. Atul has in-house facility to recycle more than 10% of its total waste. Its Ankleshwar and Tarapur manufacturing facilities are fully zero liquid discharge (ZLD). Also, over the last 15 years, Atul had not encountered any incidence of fire at its plant except the accidental fire reported in April 2022 in one of its pharma intermediate plants, while it was under maintenance. However, there were no human casualties or injuries in this accident and the fire was brought under control in around three hours' time; also, the safety mechanism in place was able to isolate this plant from other plants of the company at that location. Atul's management has initiated steps to stop recurrence of such an event. During Q1FY23, Atul has written-off the carrying value of the assets destroyed by fire amounting to ₹35 crore and has submitted an insurance claim for the same. As articulated by Atul's management, its entire plant is covered by adequate insurance against damage as well as for loss of profit.
In May 2020, through the draft gazette notification issued by 'The Ministry of Agriculture and Farmers Welfare', the Government of India had proposed to place 27 insecticides into banned category post the period of 90 days. Subsequently, in January 2021, an expert committee was constituted to review the objections of the industry towards the ban and close the matter. However, there is no further update on the same. From the list of 27 insecticides, Atul is engaged in the manufacturing and sales of 2,4-D herbicide, which comprises around 50% of the total sales of its crop protection business segment, i.e., around ₹460 crore. However, sales of 2,4-D herbicide constitute less than 10% of Atul's aggregate sales; and moreover, around 70%-80% of 2,4-D herbicide sales of Atul are in the form of exports, which is expected to be allowed even if there is ban on its sales in the domestic market. Also, Atul has submitted, within stipulated timeline, a strong defense against the grounds on which the product is proposed to be banned. However, any adverse ruling on this count could impact the performance of Atul to an extent; albeit on account of its widely diversified product portfolio, Atul is likely to successfully withstand the impact of an adverse outcome.

Analytical approach: Consolidated
CARE Ratings has adopted a 'Consolidated' approach for Atul on account of strong operational and financial linkages among Atul and its subsidiaries and their common management. The list of entities getting consolidated has been placed at **Annexure-4.**

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: Consolidation
Rating Methodology-Manufacturing Companies
Financial ratios-Non- Financial Sector
Policy on Withdrawal of Ratings

About the company
Atul was originally promoted by Padma Bhushan late Kasturbhai Lalbhai in 1947 as Atul Products Limited and was later renamed as Atul Limited in 1996. It has one of the biggest integrated chemical complexes in India with a well-diversified product portfolio of around 900 products and 400 formulations. It has manufacturing facilities located at Ankleshwar and Valsad in Gujarat and Tarapur in Maharashtra, with its main site spread across 1,250 acres. Geographically, its sales are almost evenly distributed between domestic and exports. It has marketing offices through its subsidiaries in USA, UK, Germany, UAE, China, Brazil, etc.

Brief Financials of Atul – Consolidated (₹ crore)	FY21 (A)	FY22 (A)	Q1FY23 (Prov.)
TOI	3,731	5,092	1,513
PBILDT	910	925	270
PAT	660	605	163
Overall gearing (times)	0.05	0.05	NA
Interest coverage (times)	97.29	100.83	171.99

A: Audited; Prov.: Provisional; NA: Not available; Financials are classified as per CARE Ratings' standards.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

Complexity level of various instruments rated for this company: Annexure-3

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 - LT-Cash Credit	-	-	-	-	127.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	-	350.50	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	-	-	0.00	Withdrawn

Annexure-2: Rating history (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 - LT-Cash credit	LT	127.00	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA+; Stable (31-Aug-20) 2)CARE AA+; Stable (24-Aug-20)	1)CARE AA+; Stable (04-Oct-19)
2	Non-fund-based - ST-BG/LC	ST	350.50	CARE A1+	-	1)CARE A1+ (03-Aug-21)	1)CARE A1+ (31-Aug-20) 2)CARE A1+ (24-Aug-20)	1)CARE A1+ (04-Oct-19)
3	Commercial paper-Commercial paper (Standalone)	ST	-	-	-	1)CARE A1+ (25-Nov-21)	-	-

Annexure-3: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial paper-Commercial paper (Standalone)	Simple
2	Fund-based - LT-Cash Credit	Simple
3	Non-fund-based - ST-BG/LC	Simple

Annexure-4: List of entities getting consolidated in Atul Limited

Sr. No.	Name of the entity	% stake of Atul as on March 31, 2022
1	Aaranyak Urmi Ltd	100.00
2	Aasthan Dates Ltd	100.00
3	Amal Ltd	49.85
4	Amal Speciality Chemicals Limited	49.85
5	Anchor Adhesives Private Ltd	100.00
6	Atul Aarogya Ltd	41.67
7	Atul Ayurveda Ltd	41.67
8	Atul Bioscience Ltd	100.00
9	Atul Biospace Ltd	100.00
10	Atul Brasil Qumicos Ltda	100.00

Sr. No.	Name of the entity	% stake of Atul as on March 31, 2022
11	Atul China Ltd	100.00
12	Atul Clean Energy Ltd	28.47
13	Atul Crop Care Ltd	26.00
14	Atul Deutschland GmbH	100.00
15	Atul Entertainment Ltd	41.67
16	Atul Europe Ltd	100.00
17	Atul Finserv Ltd	100.00
18	Atul Fin Resource Ltd	100.00
19	Atul Healthcare Ltd	100.00
20	Atul Homecare Ltd	20.00
21	Atul Hospitality Ltd	41.67
22	Atul Infotech Private Ltd	100.00
23	Atul Ireland Ltd	100.00
24	Atul Lifescience Ltd	100.00
25	Atul Middle East FZ-LLC	100.00
26	Atul Natural Dyes Limited	100.00
27	Atul Natural Foods Limited	100.00
28	Atul Nivesh Ltd	100.00
29	Atul Paints Ltd	100.00
30	Atul Polymers Products Ltd	50.00
31	Atul Products Ltd	100.00
32	Atul Rajasthan Date Palms Ltd	73.98
33	Atul Renewable Energy Ltd	100.00
34	Atul (Retail) Brands Ltd	43.05
35	Atul Seeds Ltd	43.98
36	Atul USA Inc	100.00
37	Biyaban Agri Ltd	100.00
38	DPD Ltd	98.00
39	Jayati Infrastructure Ltd	43.98
40	Osia Dairy Ltd	100.00
41	Osia Infrastructure Ltd	100.00
42	Raja Dates Ltd	100.00
43	Sehat Foods Ltd	100.00
44	Anaven LLP	50.00
45	Rudolf Atul Chemicals Ltd	50.00

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 instrument: CARE Ratings Ltd. 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.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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