Amal Limited

February 08, 2021

Ratings

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long term bank facilities #	4.00	**'Provisional' CARE AA+ (CE); Stable (Double A Plus (Credit Enhancement); Outlook: Stable)**	**Assigned**
Total	**4.00 (Rupees Four crore only)**		

Details of facilities in Annexure-1
 # The above rating is based on the credit enhancement in the form of proposed unconditional and irrevocable corporate guarantee to be issued by Atul Limited.
The above 'Provisional' rating will be confirmed once the company submits the copy of executed deed of corporate guarantee from Atul Ltd. to the satisfaction of CARE.

Unsupported Rating As stipulated vide SEBI circular dated June 13, 2019	**CARE A- (Single A Minus)**

Unsupported rating do not factor-in the proposed explicit credit enhancement

Detailed Rationale & Key Rating Drivers

The rating assigned to the above bank facilities of Amal Limited (Amal) is based on the credit enhancement in the form of proposed unconditional and irrevocable corporate guarantee to be extended by Atul Limited (Atul; rated CARE AA+; Stable / CARE A1+).

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 & Development (R&D) setup leading to gradual shift in its product mix over last few years to research oriented niche segments. The ratings continue to be underpinned by its largely stable scale of operations in FY20 (refers to the period April 1 to March 31) along with improvement in its 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 and 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.

Key rating drivers of Amal for unsupported rating

The unsupported rating of Amal derives comfort from its strong parentage; being an associate company of Atul which has an established track record of operations in the chemical industry and strong credit risk profile; along with the managerial support that Amal receives from Atul. The rating also derives strength from strategic location of Amal's manufacturing facility for Atul as it acts as a backward integration for Atul's operations leading to its healthy capacity utilization, along with its healthy profitability, adequate debt coverage and liquidity indicators. CARE also notes that Amal has not availed any moratorium on its debt as a Covid relief measure, in line with Reserve Bank of India (RBI) guidelines, for servicing of its bank facilities which further underlines its adequate liquidity profile.

The unsupported rating is, however, constrained on account of its single product profile with small scale of operations, susceptibility of its profitability to volatile raw material prices, risks related to stringent pollution control norms and inherent risks associated with the implementation and stabilization of a large size predominantly debt funded capex in its wholly owned subsidiary (Amal Speciality Chemicals Limited; ASCL) which is also expected to result in moderation of its consolidated overall gearing; albeit the expected offtake agreement with Atul is likely to mitigate post-implementation project risk to a large extent.

Rating Sensitivities (of the guarantor, Atul)

Positive Factors

- Greater geographical diversification of its manufacturing operations compared with very high dependence at one location currently
- Increase in scale of operations while maintaining its PBILDT margin above 20% on 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

- Any large debt funded capex/ acquisition which deteriorates its Total Debt /GCA beyond 2x on sustained basis

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

- Any change in prevailing pollution control/ environmental norms and/or regulatory ban on production & sales of certain products thereby significantly impacting its business and profitability

Detailed description of the key rating drivers **(of the guarantor, Atul)**
Key Rating Strengths
Wide experience of the promoters in chemical industry along-with competent management
Atul is presently headed by third generation entrepreneur Shri Sunil Lalbhai, 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 & finance, taxation, law, etc. Mr. T R Gopi Kannan, Whole-time Director and CFO of the company, is a Fellow Member of the ICAI, ICMAI and ICSI; and a Post Graduate Diploma in Management from IIM-Ahmedabad. Further, Atul being an R&D focused chemical company, it currently has 1,481 post-graduates and 86 PhDs working with it.

Strong presence in chemical industry with diversified product portfolio and wide user industries along with geographically diversified clientele
Atul's operations are classified into two broad segments viz. Performance and other Chemicals (POC) and Life Science Chemicals (LSC) catering to the requirement of diversified industries like textile, paints & coatings, adhesives, dyestuff, agriculture, fragrance & 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 69% during FY20 wherein polymers, aromatics and colours were the major contributors while that of LSC stood at 31% of the net sales wherein crop protection was the major contributor. Over the years, Atul has emerged as a prominent player in many of the products it manufactures (including para Cresol, para Anisic Aldehyde, Resorcinol), and it also has a strong clientele including some global chemical majors. Further, its well-diversified product-range helps Atul in mostly offsetting the adverse performance of few product lines in some years with better performance of remaining products in those years.
Furthermore, Atul enjoys geographically diversified clientele with its presence through various marketing subsidiaries in Asia, Europe, North America, South America and Africa wherein it serves about 4,000 customers across 90 countries; whereby top 10 customers contributed only 15% of its total net sales during FY20. Going forward, since majority of company's sales i.e., 94% is in B2B segment, the management plans to focus on increasing retail sales where profitability margins are even better.

Steady shift in product-mix from commodity grade to research oriented specialty chemicals leading to healthy profitability over the years
Atul was earlier one of the largest dyestuff manufacturing companies in India; however, through its strong R&D initiatives, JV with multinational companies and acquisitions, Atul has expanded its product portfolio significantly over 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 FY20, LSC segment witnessed de-growth in sales by 9% but on the other hand, POC segment witnessed growth in sales by 4% on y-o-y basis. Consolidated Total Operating Income (TOI) of the company remained largely stable at Rs.4,147 crore during FY20 as compared with Rs.4,068 crore during FY19. The PBILDT margins of Atul improved by 344 bps to 23.07% during FY20 on the back of increase in sales realization of majority of its products and favourable input prices.
During 9MFY21, Atul reported TOI of Rs.2700 crore with PBILDT margin of 27.67% in-spite of Covid-19 induced sales disruption during initial part of Q1FY21. Contribution of POC segment in its net sales stood at 66% during 9MFY21 whereas that of LSC segment stood at 33%. Furthermore, as per its published results, Atul's POC and LSC segments reported PBIT margin of 23% and 19% respectively in 9MFY21 vis-à-vis 20% and 19% respectively in 9MFY20.

Comfortable leverage with strong debt coverage indicators
On a standalone basis, Atul had no outstanding fund-based debt as on March 31, 2020. Also, on a consolidated level, its leverage stood at a very comfortable level of 0.06 times as on March 31, 2020. Its debt coverage indicators also stood very strong marked by interest coverage of 101.77 times & Total debt/GCA of 0.23 years during FY20. Its Total Debt/PBILDT, too, was very comfortable at 0.18 times during FY20. Its interest coverage continued to remain very comfortable at 107.62 times during 9MFY21.

Liquidity: Strong
The liquidity of Atul is strong marked by healthy cash accruals against negligible term debt repayment obligations. Further, the company has been regularly generating healthy cash flow from operations and the same stood at Rs.819 crore during FY20. Atul declared an interim dividend of 125% to commemorate the 125th birth anniversary of its founder (Late Kasturbhai Lalbhai) and declared a further interim dividend of 150% considering the best-ever performance of the company during FY20. Hence, the total interim dividend pay-out stood at Rs.151.50 crore during FY20. Despite the

aforesaid dividend pay-out, the company had significant liquidity of Rs.684 crore in the form of cash, investments in liquid and arbitrage mutual funds; along with Rs.466 crore in the form of investments in quoted equity shares (mainly in Pfizer Limited) as on March 31, 2020. With an overall gearing of 0.06 times as of March 31, 2020, it has sufficient gearing headroom, to raise additional debt for its capex. The utilization of its fund based working capital limits remained less than 1% over the trailing twelve months ended December 2020. Accordingly, its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Its current ratio was also very strong at 2.84 times as on March 31, 2020. Also, the company has not availed any moratorium on its debt obligations, the option for which was available to it as a Covid relief measure, as permitted by Reserve Bank of India's (RBI) package, which further underscores its strong liquidity. On January 29, 2021, Atul has announced its plan to buy-back its fully paid-up equity shares for an amount not exceeding Rs.50 crore (excluding related transaction costs); the same is not expected to have any material impact on its liquidity.

Key Rating Weaknesses

Exposure to volatility in raw material prices which are largely crude oil-based along-with presence in 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 few products, where Atul has large market share, the increase in raw material price can be largely passed onto 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; although, over a period of time, with greater product diversification, Atul has demonstrated relatively good resilience against crude oil price fluctuations. Atul 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. Further, Atul is also dependent on China for certain key intermediates required by its crop protection and dyestuff sub-segments. Around 32.50% of the total raw material (RM) requirement i.e., around Rs.650 crore is imported and around Rs.150 crore of the RM is procured from China as indicated by the management. On account of Covid-19 pandemic, Atul did face some issues with logistics in import of these RM from China from beginning of this year till May; however currently there are no major issues being faced in importing these RM. Moreover, as the RMs imported from China are basic chemicals, its alternatives are easily available although at higher cost from other countries. Nevertheless, 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 32.50% of its raw material requirement. Furthermore, net exports are hedged using forward contracts, foreign currency option contracts and interest rate swaps. 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.

Envisaged large-size capex

Atul, on a consolidated basis, has envisaged to incur large size capex of around Rs.550 crore per annum during each of the next three years-ended FY23 towards increasing manufacturing capacity of products where there is good demand, various debottlenecking projects, routine capex and meeting environmental compliance norms along-with residual capex towards its on-going project under its Joint Venture (JV) named Anaven LLP with Nouryon Chemical International B.V. for setting up manufacturing facility for the production of Monochloroacetic acid (MCA) at Atul's plant in Gujarat with an installed capacity of 32,000 metric tonne per annum (MTPA) which started commercial production recently from December 2020; however firm is facing some teething issues which are expected to be resolved soon. Atul has also planned to undertake a project to manufacture Sulphuric Acid and its downstream products in its associate company, Amal Speciality Chemicals Limited (ASCL), which is expected to achieve commercial operations from September 2022 and is envisaged to entail a project cost of Rs.70 crore. The project debt in ASCL is proposed to be backed by the Letter of Comfort to be extended by Atul. Due to Covid 19 situation and resultant uncertainty, Atul did not firm up any major capex plan for FY21. It is holding back any significant capex in near future till the time further clarity on demand emerges from the market as it has adequate installed capacities to meet current market demand. Also, Atul hasn't envisaged to avail any debt for its own capex plans and all future capex is also likely to be aligned with its internal accruals. Atul's ability to implement these projects in a timely manner and generate envisaged returns thereof to increase its competitive position in key products/markets would be crucial for its further growth prospects.

Uncertainty associated with probable ban on sale of few insecticides in India

Through the draft gazette notification issued by 'The Ministry of Agriculture and Farmers 'Welfare' on May 14, 2020 the GoI proposed placing of 27 insecticides into banned category. From the list of these 27 insecticides, Atul is into manufacturing and sales of 2,4 D herbicide which comprises of around 50% of total sales of its crop protection segment i.e., around Rs.350 crore. However, as indicated by the company's management, representation by industry association has been made to the government against the drawbacks of this notification. Furthermore, sales of 2,4 D constitutes less than 10% of Atul's total sales; and moreover, around 70-80% of 2,4 D sales of Atul is towards the export market wherein as per latest updates the exports of these insecticides shall be allowed on case-to-case basis. Accordingly, final outcome in the matter would provide more clarity; albeit on account of its widely diversified product portfolio, Atul is likely to successfully withstand the impact of an adverse outcome.

Analytical Approach
For Credit Enhanced Rating: Guarantor's (i.e. Atul's) assessment since the bank facilities of Amal is proposed to be entirely backed by unconditional & irrevocable corporate guarantee from Atul.
CARE has adopted 'Consolidated' approach for Atul on account of strong operational & financial linkages among Atul and its subsidiaries/associates and their common management. The list of entities getting consolidated has been placed at ***Annexure 4***.

For Un-supported Rating: Amal's Consolidated financials on account of expected business synergies with its sole subsidiary (Atul Speciality Chemicals Limited; ASCL) wherein it has taken up a project to expand its Sulphuric acid capacity in line with requirement of Atul. Also, its strong operational and financial linkages with Atul are factored in.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Liquidity Analysis of Non-Financial Sector Entities
Policy on Assignment of Provisional Ratings
Criteria for Rating Credit Enhanced Debt
Rating Methodology: Notching by factoring linkages in Ratings
Rating Methodology: Consolidation
Rating Methodology - Manufacturing Companies
Financial ratios – Non-Financial Sector

About the Company (Amal)
Incorporated in July 1974, Amal Limited (Amal) is a publicly listed company and an associate company of Atul Limited. Amal is engaged in the manufacturing of bulk chemicals such as Sulphuric acid and Oleum and their downstream products such as Sulphur dioxide and Sulphur trioxide at its manufacturing site at Ankleshwar, Gujarat with installed capacity of 120 Tonnes Per Day (TPD). It has one wholly owned subsidiary, ASCL.

Brief Consolidated Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	33.42	33.66
PBILDT	12.88	15.02
PAT	7.75	9.19
Overall gearing (times)	0.72	0.18
Interest coverage (times)	5.40	7.15

A: Audited
As per published results for 9MFY21, Amal reported TOI of Rs.21.38 crore with a PAT of Rs.6.01 crore compared with TOI of Rs.26.07 crore with a PAT of Rs.6.72 crore during 9MFY20.

About the Guarantor: Atul
Atul Limited (Atul) was originally promoted by Padma Bhushan Late Shri Kasturbhai Lalbhai in 1947 as Atul Products Ltd. as a step towards backward integration of their cotton textile business and was later renamed as Atul Ltd 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 & 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 – Consolidated (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	4,068	4,147
PBILDT	798	957
PAT	436	671
Overall gearing (times)	0.04	0.06
Interest coverage (times)	107.72	101.77

A: Audited

As per published consolidated results, Atul reported TOI of Rs.2,700 crore with a PAT of Rs.483.35 crore in 9MFY21 as against TOI of Rs.3,170 crore with a PAT of Rs.528.44 crore in 9MFY20; its sales were impacted during part of Q1FY21 due to disruptions caused by imposition of lockdown to control the spread of the Covid-19 pandemic.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

Annexure-1: Details of Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	4.00	Provisional CARE AA+ (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE A-

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	4.00	Provisional CARE AA+ (CE); Stable	-	-	-	-
2.	Un Supported Rating-Un Supported Rating (Long Term)	LT	0.00	CARE A-	-	-	-	-

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Un Supported Rating-Un Supported Rating (Long Term)	Simple

Annexure-4: List of entities getting consolidated in Atul

Sr. No.	Name of the Company	% Stake as on March 31, 2020
1	Aaranyak Urmi Ltd	100
2	Aasthan Dates Ltd	100
3	Amal Ltd	50
4	Anchor Adhesives Private Ltd	100
5	Atul Aarogya Ltd	100
6	Atul Ayurveda Ltd	100
7	Atul Bioscience Ltd	100
8	Atul Biospace Ltd	100
9	Atul Brasil Qumicos Ltda	100
10	Atul China Ltd	100
11	Atul Clean Energy Ltd	100
12	Atul Crop Care Ltd	100
13	Atul Deutschland GmbH	100
14	Atul Entertainment Ltd	100
15	Atul Europe Ltd	100
16	Atul Finserv Ltd	100
17	Atul Finresource Ltd	100

Sr. No.	Name of the Company	% Stake as on March 31, 2020
18	Atul Hospitality Ltd	100
19	Atul Infotech Private Ltd	100
20	Atul Ireland Ltd	100
21	Atul Middle East FZ-LLC	100
22	Atul Nivesh Ltd	100
23	Atul Polymers Products Ltd (Formerly known as Atul Elkay Polymers Ltd)	100
24	Atul Rajasthan Date Palms Ltd	74
25	Atul (Retail) Brands Ltd	100
26	Atul Seeds Ltd	100
27	Atul USA Inc	100
28	Biyaban Agri Ltd	100
29	DPD Ltd	98
30	Jayati Infrastructure Ltd	100
31	Lapox Polymers Ltd	100
32	Osia Dairy Ltd	100
33	Osia Infrastructure Ltd	100
34	Raja Dates Ltd	100
35	Anaven LLP	50
36	Rudolf Atul Chemicals Ltd*	50

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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