

Amal Speciality Chemicals Limited

August 16, 2021

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities #	50.00	CARE A+ (CE); Stable (Single A Plus (Credit Enhancement); Outlook: Stable)	Final Rating Confirmed
Total	50.00 (Rs. Fifty crore only)		

Details of facilities in Annexure-1

CARE has confirmed the earlier 'Provisional' rating assigned to the bank facilities upon receipt of Letter of Comfort (LOC) from Atul Ltd as per draft document shared with CARE at time of initial rating and final bank sanction letter which confirms that Amal Ltd. shall continue to hold controlling stake in Amal Speciality Chemicals Ltd. during the currency of the rated bank loan.

Unsupported Rating @ As stipulated vide SEBI circular dated June 13, 2019	CARE A- (Single A Minus) [Final Rating Confirmed]
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Unsupported rating does not factor-in the proposed explicit credit enhancement

@ CARE has confirmed the earlier unsupported 'Provisional' rating assigned to the bank facilities upon receipt of executed 'Sale and Purchase agreement' between Amal Speciality Chemicals Ltd and Atul Ltd. in line with draft agreement shared earlier.

Detailed Rationale & Key Rating Drivers

The rating assigned to the above bank facilities of Amal Speciality Chemicals Limited (ASCL) is based on the credit enhancement in the form of Letter of Comfort 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 also take cognizance 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 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 ASCL for unsupported rating

The unsupported rating of ASCL continues to derive comfort from its strong parentage; being a wholly-owned subsidiary of Amal Limited which is an associate company of Atul, established track record of operations of Atul in the chemical industry and its strong credit risk profile along with the managerial support that ASCL receives from Atul. The rating also derives strength from strategic location of the upcoming plant of ASCL which is envisaged to provide strong operational synergies with Atul by acting as a backward integration for Atul's operations, experience of the group in setting up and operating sulphuric acid plants and the committed off-take agreement of ASCL with Atul thereby reducing the saleability risk of its products to a large extent.

The unsupported rating is, however, constrained by the inherent implementation risk associated with the predominantly debt-funded green-field project along with stabilization risk, single product profile, expected moderate scale of operations of ASCL at full capacity utilization, susceptibility of its profitability to volatile raw material prices and exposure to stringent pollution control norms.

Rating Sensitivities (of the LOC provider, Atul)

Positive Factors

- 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 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

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

Negative Factors

- Any large debt-funded capex/ acquisition which deteriorates its Total Debt /GCA beyond 1x on 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 (of the LOC provider, Atul)**Key Rating Strengths*****Wide experience of the promoters in chemical industry along-with competent management***

Atul is presently headed by the third-generation entrepreneur Mr 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 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, ICAI and ICSI, and has a Post Graduate Diploma in Management from IIM-Ahmedabad. Furthermore, Atul being an R&D-focused chemical company 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 67% during FY21 (refers to the period April 1 to March 31) wherein polymers, aromatics and colours were the major contributors while that of LSC stood at 33% 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. Furthermore, 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 11% of its total net sales during FY21 (PY:15%). Management is increasing its focus on targeting retail sales where profitability margins are comparatively better and contribution of retail sales to net sales marginally increased to 9% in FY21 from 6% in FY20.

Steady shift in product-mix from commodity grade to research-oriented specialty chemicals leading to healthy profitability over the years

Earlier, Atul was 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 FY21, LSC segment witnessed de-growth in sales by 4% while POC segment witnessed de-growth in sales by 12% on y-o-y basis leading to moderation in consolidated total operating income (TOI) of the company by 8% on y-o-y basis to Rs.3,814 crore during FY21 mainly due to adverse impact of Covid-19 pandemic during Q1FY21. However, the PBILDT margins of Atul improved by around 300 bps to 26.01% during FY21 on the back of favorable input prices.

During Q1FY22, Atul witnessed significant improvement in sales by 58% on y-o-y basis on the back of higher demand from the end-use industries. However, rise in inputs costs in Q1FY22 has led to some moderation in operating profitability marked by PBILDT margin of 24.12% during Q1FY22. CARE Ratings expects Atul to earn PBILDT margin of around 22% during FY22.

Comfortable leverage with strong debt coverage indicators

On a standalone basis, Atul had no debt on its books as on March 31, 2021. Also, on a consolidated basis, its leverage stood at a very comfortable level of 0.05 times as on March 31, 2021, and its debt coverage indicators also stood very strong marked by Interest coverage of 106.07 times & total debt/GCA of 0.25 years during FY21. Its Total Debt/PBILDT was also very comfortable at 0.21 times during FY21. On the back of its envisaged healthy generation of operating cash flows and funding of planned capex through its available strong liquidity, CARE Ratings expects Atul's overall gearing and Total Debt/GCA to remain very comfortable at below 0.10 times and 0.25 times as on March 31, 2022.

Liquidity: Strong

The liquidity of Atul is strong marked by healthy cash accruals against negligible term debt repayment obligations. With low gearing level, it has sufficient gearing headroom, to raise additional debt for its capex; although it is expected to fund its entire capex requirement from healthy internal accruals only. The utilization of its fund-based working capital limits remained less than 2% over the trailing twelve months ended June 2021. Accordingly, its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. The company had significant liquidity of Rs.1,086 crore in the form of cash, investments in liquid and arbitrage mutual funds, along with Rs.595 crore in the form of investments in quoted equity shares (mainly in Pfizer Limited) as on March 31, 2021. Furthermore, the company has been regularly generating healthy cash flow from operations and the same stood at Rs.785 crore during FY21. Its current ratio was also very strong at 3.18 times as on March 31, 2021, and operating cycle remained stable at 78 days during FY21.

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 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; although over a period of time, with greater product diversification, Atul has demonstrated relatively good resilience against crude oil price volatility. 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. Furthermore, Atul is also dependent on China for certain key intermediates required by its crop protection and dyestuff sub-segments. During FY21, around 33% of the total raw material (RM) requirement, i.e., around Rs.549 crore was imported, around 20%-25% of which was procured from China. In latter part of FY20 & Q1FY21, the company did face some issues with logistics in importing these RMs on account of Covid-19 pandemic; however, currently there are no major issues being faced by it in this regard. Also, chemical industry is highly competitive and susceptible to cyclical in demand which is linked to various domestic and global factors.

Exposure to foreign exchange rate fluctuations

Atul has geographically diversified sales with around 46% 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 33% 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.400-550 crore per annum in the next three years-ending FY24 towards increasing manufacturing capacity of products in polymers, colors and aromatics segments, setting up of caustic soda plant along with coal-based power plant for meeting its captive requirement, various de-bottlenecking projects, routine capex and meeting environmental compliance norms. Atul has set up wholly-owned subsidiary company in the name of Atul Products Limited for establishing above-mentioned caustic soda plant and captive coal-based power plant wherein investment of Rs.700 crore is expected by FY23. Atul is not expected to avail any debt for its capex plans and all future capex in the medium-term is expected to be funded from its internal accruals/available liquidity. Atul's ability to implement these projects and generate envisaged returns thereof to strengthen 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' in May 2020, the Government of India had proposed placing of 27 insecticides into banned category post the period of 90 days with last day for submission of any objections and/or suggestions being August 11, 2020. Subsequently, in January 2021, an expert committee was constituted to review the objections of industry towards the ban and close the matter. However, its final outcome is still pending. Of the 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 segment, i.e., around Rs.310 crore. However, sales of 2,4 D herbicide constitutes less than 10% of Atul's aggregate sales; and moreover, around 70%-80% of 2,4 D herbicide sales of Atul is in the form of exports which is expected to be allowed even if there is ban on its sales in domestic market. Also, Atul has submitted, within stipulated timeline, a strong defense against the grounds on which the product is proposed to be banned. 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: Assessment of the Letter of Comfort provider (i.e., Atul) since the bank facilities of ASCL are backed by letter of comfort from Atul.

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

For Un-supported Rating: Standalone along with factoring strong operational and financial linkages with its strong parentage of Atul because ASCL is setting up a project as a backward integration to meet the sulphuric acid requirement of Atul.

Applicable Criteria

[Criteria on assigning 'Outlook' and 'Credit Watch' to Credit Ratings](#)

[CARE's Policy of Default Recognition](#)

[Rating Methodology – Manufacturing Companies](#)

[Financial Ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology: Notching by factoring linkages in Ratings](#)

[Rating Methodology: Consolidation](#)

[Criteria for Rating Credit Enhanced Debt](#)

About the Company (ASCL)

ASCL, incorporated in October 2020, is a wholly-owned subsidiary of Amal which in turn is an associate company of Atul. ASCL was incorporated to set up a project to manufacture sulphuric acid and other downstream products such as oleum 65%, sulphuric dioxide and sulphuric trioxide with installed capacity of 300 tonne per day (TPD) at Ankleshwar (adjacent to Amal's existing 140 TPD facility and Atul's aromatic manufacturing facility). By June 30, 2021, ASCL had incurred Rs.14 crore towards the project and placed orders amounting to around Rs.50 crore. Out of the total production of ASCL, around 39% is committed to be off-taken by Atul to meet its captive requirement.

Brief Financials: Not applicable as ASCL is a project stage entity.

About the LOC Provider: Atul

Atul was originally promoted by Padma Bhushan Late Mr Kasturbhai Lalbhai in 1947 as Atul Products Ltd. 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)	FY20 (A)	FY21 (A)
Total operating income	4,147	3,814
PBILDT	957	992
PAT	671	660
Overall gearing (times)	0.06	0.05
Interest coverage (times)	101.77	106.07

A: Audited

As per its published consolidated financial results, Atul reported TOI of Rs.1,110 crore with a PAT of Rs.165 crore in Q1FY22 as against TOI of Rs.701 crore with a PAT of Rs.118 crore in Q1FY21.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer **Annexure-2**

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

Annexure-1: Details of Facilities

Name of the Instrument/ Bank Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	December 2027	50.00	CARE A+ (CE); Stable
Un Supported Rating-Un Supported Rating (Long Term)	-	-	-	0.00	CARE A-

Annexure-2: Rating History (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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Term Loan	*LT	50.00	CARE A+ (CE); Stable	-	1)Provisional CARE A+ (CE); Stable (08-Feb-21)	-	-
2.	Un Supported Rating-Un Supported Rating (Long Term)	*LT	0.00	CARE A-	-	1)Provisional CARE A- (08-Feb-21)	-	-

***Long Term / Short Term**

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

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Term Loan	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	% holding as on March 31, 2021
1	Aaranyak Urmi Ltd	100
2	Aasthan Dates Ltd	100
3	Amal Ltd	49.86
4	Amal Speciality Chemicals Limited	49.86
5	Anchor Adhesives Private Ltd	100
6	Atul Aarogya Ltd	100
7	Atul Ayurveda Ltd	100
8	Atul Bioscience Ltd	100
9	Atul Biospace Ltd	100
10	Atul Brasil Qumicos Ltd	100
11	Atul China Ltd	100
12	Atul Clean Energy Ltd	100
13	Atul Crop Care Ltd	100
14	Atul Deutschland GmbH	100
15	Atul Entertainment Ltd	100
16	Atul Europe Ltd	100
17	Atul Finserv Ltd	100
18	Atul Finresource Ltd	100
19	Atul Hospitality Ltd	100
20	Atul Infotech Private Ltd	100
21	Atul Ireland Ltd	100
22	Atul Middle East FZ-LLC	100
23	Atul Natural Dyes Limited	100
24	Atul Natural Foods Limited	100
25	Atul Nivesh Ltd	100
26	Atul Polymers Products Ltd (Formerly known as Atul Elkay Polymers Ltd)	100
27	Atul Products Ltd	100
28	Atul Rajasthan Date Palms Ltd	73.98
29	Atul Renewable Energy Ltd	100
30	Atul (Retail) Brands Ltd	100
31	Atul Seeds Ltd	100
32	Atul USA Inc	100
33	Biyaban Agri Ltd	100
34	DPD Ltd	98
35	Jayati Infrastructure Ltd	100
36	Lapox Polymers Ltd	100
37	Osia Dairy Ltd	100
38	Osia Infrastructure Ltd	100
39	Raja Dates Ltd	100
40	Anaven LLP	50
41	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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