Amal Limited (Revised)

August 16, 2021

Rating

Facilities	Amount (Rs. Crore)	Rating[1]	Rating Action
Long-term Bank Facilities #	4.00	'Provisional' CARE AA+ (CE); Stable (Provisional Double A Plus (Credit Enhancement); Outlook: Stable)	Reaffirmed
Total	**4.00 (Rs. 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.

Unsupported Rating [2]	**CARE A- (Single A Minus) [Reaffirmed]**
Rating in the absence of the pending steps/ documents	**Same as Unsupported Rating**

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

Detailed Rationale & Key Rating Drivers for the Credit Enhanced Debt
The rating of the above bank facilities of Amal Limited (Amal) is based on the credit enhancement in the form of the proposed unconditional and irrevocable corporate guarantee to be extended by Atul Limited (Atul; rated 'CARE AA+; Stable / CARE A1+').

Detailed Rationale & Key Rating Drivers of the guarantor, Atul
The ratings assigned to the bank facilities of 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 the cyclical chemical industry.

Further, the above rating is 'Provisional' and will be confirmed once the company submits the copy of executed deed of corporate guarantee from Atul Ltd. to the satisfaction of CARE.

Key rating drivers of Amal for unsupported rating
The unsupported rating of Amal continues to derive 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 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 offtake agreement executed with Atul is likely to mitigate post-implementation project risk to a large extent.

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*
[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

<u>**Rating Sensitivities (of the guarantor, Atul)**</u>

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

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 <u>(of the guarantor, Atul)</u>

<u>**Key Rating Strengths**</u>

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, ICMAI 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%). The company's 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 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 the 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, the 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 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 its manufacturing capacity of products in polymers, colours 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 the 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: Guarantor's (i.e., Atul's) assessment since the bank facilities of Amal are proposed to be entirely backed by unconditional & irrevocable corporate guarantee 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: 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 of Default Recognition
Rating Methodology – Manufacturing Companies
Policy on assignment of Provisional Ratings
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

Validity of the Provisional Rating:

The provisional rating shall be converted into a final rating after receipt of the above-mentioned transaction document duly executed/ completion of the above-mentioned step within 90 days from the date of issuance of the instrument. An extension of 90 days may be granted on a case-to-case basis in line with CARE's Policy on Assignment of Provisional Ratings.

Risks associated with provisional nature of credit rating:

When a rating is assigned pending execution of certain critical documents or steps to be taken, the rating is a 'Provisional' rating indicated by prefixing 'Provisional' before the rating symbol. On execution of the critical documents to the satisfaction of CARE Ratings, the final rating is assigned by CARE Ratings. In absence of receipt of documents/ completion of steps or where such documents deviate significantly from that considered by CARE Ratings, the provisional rating will be reviewed in line with the Policy on Assignment of Provisional Ratings.

About the Company (Amal)

Incorporated in July 1974, Amal is a publicly listed company and an associate company of Atul. It 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 140 Tonnes Per Day (TPD). It has one wholly-owned subsidiary, ASCL.

Brief Consolidated Financials (Rs. crore)	FY20 (A)	#FY21 (A)
Total operating income	33.66	31.65
PBILDT	15.02	12.48
PAT	9.19	8.80
Overall gearing (times)	0.18	0.17
Interest coverage (times)	7.15	17.13

A: Audited; #: Abridged audited results published on the stock exchange

As per its published consolidated results, Amal reported TOI of Rs.3.13 crore with net loss of Rs.1.68 crore during Q1FY22 compared with TOI of Rs.5.15 crore with a PAT of Rs.1.08 crore during Q1FY21. The moderation in performance during Q1FY22 was owing to plant shutdown for around two months during the quarter to carry out scheduled maintenance and other de-bottlenecking activities.

About the Guarantor: 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 and at 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-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 (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-Cash Credit	*LT	4.00	Provisional CARE AA+ (CE); Stable	-	1)Provisional CARE AA+ (CE); Stable (08-Feb-21)	-	-
2.	Un Supported Rating-Un Supported Rating (Long Term)	*LT	0.00	CARE A-	-	1)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-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	% 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

Sr. No.	Name of the Company	% holding as on March 31, 2021
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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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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