

Atul Products Limited

November 06, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	200.00 (Enhanced from 110.00)	CARE A-; Stable	Revised from CARE A-; Stable/CARE A2+
Long-term/Short-term bank facilities	75.00 (Enhanced from 15.00)	CARE A-; Stable/CARE A2+	Reaffirmed

Details of instruments/facilities in Annexure-1.

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 project cost of APL's ongoing greenfield caustic-chlorine and related captive power plant (CPP) is largely 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, the envisaged synergies from the CPP, the location benefits as well as some captive consumption of APL's products by Atul.

The ratings, however, continue to be constrained by the inherent risks associated with the timely commercialisation and stabilisation of the greenfield project, wherein the project was delayed due to various external factors, post-implementation risk in the backdrop of inherent cyclicity associated with the caustic-chlorine industry, and the requirement of continuous compliance with stringent pollution control norms.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Timely implementation and commencement of commercial operations of the ongoing project.
- Total operating income (TOI) exceeding ₹450 crore while achieving electro-chemical unit (ECU) realisations of more than ₹30,000 per metric tonne (MT) on a sustained basis.

Negative factors

- Change in stance of support to APL from Atul; and/or APL not remaining a majority-owned subsidiary of Atul.
- Significant time and cost overruns in the ongoing project, adversely impacting its leverage and debt coverage indicators.
- Inability to ramp-up its scale of operations, marked by an annual TOI of less than ₹300 crore post commissioning of the project.
- Sustained pressure on its profitability, marked by ECU realisations remaining below ₹30,000 per MT on a sustained basis, along with its adverse impact on its debt coverage indicators.

Analytical approach

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

Outlook: Stable

CARE Ratings Limited (CARE Ratings) expects APL to be able to successfully stabilise the caustic soda plant after achieving the commercial operations date (COD) and to continue to receive need-based financial or management support from Atul.

Detailed description of the key rating drivers

Key strengths

Strong parentage of Atul

APL draws significant comfort from its strong parentage, being a wholly owned subsidiary of Atul, whereby a major portion of the project cost of APL's ongoing greenfield caustic-chlorine and related CPP is being 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 requirements of diversified industries like textile, paints and coatings, adhesives, dyestuff, agriculture, fragrance and flavours, cosmetic, personal care, tyre, paper, plastic, pharmaceutical, aerospace, composites, construction, and glass, among others. The credit risk profile of Atul is strong.

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

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 the implementation and stabilisation of its project as its entire management team comprises personnels 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.

Majority portion of the project cost being funded by Atul

The total cost of the project is ₹1,035 crore, including an additional ₹71 crore envisaged towards working capital margin requirements post commissioning of the project. The entire cost of the project along with the working capital margin was initially envisaged to be entirely funded by Atul by way of ₹5 crore through equity capital, ₹258 crore through preference shares issue, and ₹772 crore of unsecured loans repayable in five years from March 2024. However, during FY24, APL has availed term loans from banks to the extent of ₹200 crore, the proceeds of which will be partly utilised for the repayment of Atul's unsecured loans and the balance to pay off its capex creditors. APL avails capex LCs out of its sanctioned limits from banks for the import of plants and machinery for the project. Up to June 30, 2023, Atul has infused funds to the extent of ₹825 crore for project expenditure.

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. Of the total 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 caustic soda flakes are largely expected to be sold to Atul, and the balance will be sold in the domestic as well as export markets. Going forward, the same may be captively consumed by Atul as backward integration for a few of its projects in the medium to long term. Furthermore, the Aromatic division of Arul in Ankleshwar may also fulfil its caustic soda requirements from APL when needed.

Similarly, part of the chlorine to be produced by APL will be consumed by Anaven LLP (rated 'CARE A; Stable/CARE A1'), which has set up a project for manufacturing monochloroacetic acid (MCA) in a joint venture (JV) between Atul and Nouryon. Gradually, supplies from APL to Atul is expected to go up. Furthermore, as most of the chlor-alkali manufacturers are located at the Dahej special economic zone (SEZ) whereas there are lot of chemical companies in South Gujarat, it entails a high freight cost. Accordingly, APL is expected to tap the requirements of caustic-chlorine for the chemical companies in South Gujarat due to its greater proximity to them.

Envisaged synergies from the planned CPP, albeit susceptible to adverse movements in coal prices

Power cost is one of the most critical cost components for manufacturing caustic-chlorine. During the electrolysis of salt, power consumption is high, leading to nearly 40-50% contribution of power cost in the total cost of production of caustic soda. APL is setting up a 50-megawatt (MW) CPP along with its caustic soda manufacturing facility. Of the total 50 MW CPP, around 35-36 MW capacity will 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 the high prices of imported coal prevailing currently, the cost of power generation from the CPP is likely to be costly during the initial phase, for which APL can avail power from the grid. However, any challenges in the availability of coal as well as the significantly high coal prices can adversely impact the power cost.

Liquidity: Adequate

The liquidity of APL principally derives comfort from its parentage of Atul, which has large liquidity. Atul has already invested funds of ₹825 crore (₹5 crore by way of equity fusion, ₹50 crore by way of preference issue, and ₹770 crore by way of loans) in APL by June 30, 2023. Atul is planning to invest the balance funds by end-FY24. APL is expected to repay the said loan entirely in five annual instalments starting from March 31, 2024. Furthermore, APL availed a bank term loan of ₹200 crore during FY24. The said loan is repayable in structured repayments with a moratorium of one year. Atul had significant liquidity of ₹352 crore in the form of cash, investments in liquid and arbitrage mutual funds; along with ₹536 crore in the form of investments in quoted equity shares as on March 31, 2023.

Key weaknesses

Delay in the timely commercialisation of operations

Earlier, APL's project was expected to achieve its commercial operations date (COD) by January 2023. The project execution, however, was impacted owing to COVID restrictions hindering the civil work by contractors during FY22 and further owing to delay in receipt of the required machineries with membrane cell technology, which required significant time for installation. The project is, however, nearing completion and is expected to commence operations from November 2023.

Cyclicalities associated with the caustic-chlorine industry

The profitability of caustic soda manufacturing companies is linked to the prevailing ECU realisations. Cyclical downturns or adverse variability in the demand-supply balance may drag down ECU realisations for caustic soda players. The industry witnessed a cyclical downturn after H1FY20, which was further exacerbated during FY21 owing to the COVID-19 pandemic-related contraction in demand from major end-use industries. ECU realisations dropped to a decadal low level of around ₹23,000 per MT in FY21. However, from March 2021 onwards, the sector saw a revival with an improvement in demand from end-user industries

and better availability of raw materials, leading to a rebound in the ECU realisations to around ₹55,000 per MT. Thereafter, the caustic prices reduced drastically by the end of Q1FY24 owing to the oversupply in the global market coupled with the subdued demand in downstream chlorine industries, which led to a moderation in ECU realisations to around 32,000 per MT during June 2023, impacting the profitability of caustic soda players in the near term. CARE Ratings expects moderation in the profitability of industry players during Q2FY24 as well on account of low ECU realisations currently prevailing in the market.

Requirement of compliance with stringent pollution control and fire safety norms

The 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, the continuous adherence to defined pollution control and fire safety norms are imperative for seamless operations. Its parent, Atul, is regularly incurring large-sized capex for compliance with defined pollution control norms.

Applicable criteria

[CARE's policy on default recognition](#)

[Rating Methodology - Notching by factoring linkages in ratings](#)

[Financial Ratios – Non financial Sector](#)

[Liquidity Analysis of Non-financial sector entities](#)

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

[Rating methodology - Short term instruments](#)

[Rating Methodology - Manufacturing companies](#)

[Rating Methodology - Project stage companies](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals and petrochemicals	Commodity chemicals

APL is a 100% subsidiary of Atul and has been incorporated to take up a greenfield project to set up a caustic-chlorine manufacturing facility of 300 TPD along with a 50-MW coal-based CPP. The manufacturing facility is being set up within Atul's campus on the land given on lease by Atul to APL. The project is almost at the completion stage and is expected to start commercial operations from November 2023. The total cost of the project is around ₹969 crore (as against its earlier estimate of ₹964 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, bank term loans of ₹200 crore, and the balance through unsecured loans from Atul.

Brief Financials: Not applicable, as APL is yet to start commercial operations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

Covenants of the rated instruments/facilities: Detailed explanation of the covenants of the rated instruments/facilities is given in Annexure-3.

Complexity level of the various instruments rated: Please refer Annexure-4.

Lender details: Please refer Annexure-5.

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	September 2031	200.00	CARE A-; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	-	-	-	-	75.00	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 2023-2024	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
1	Fund-based – LT-Term Loan	LT	200.00	CARE A-; Stable	1)CARE A-; Stable / CARE A2+ (09-Oct-23)	1)CARE A-; Stable / CARE A2+ (01-Aug-22)	1)CARE A-; Stable / CARE A2+ (31-Dec-21)	-
2	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	75.00	CARE A-; Stable / CARE A2+	1)CARE A-; Stable / CARE A2+ (09-Oct-23)	1)CARE A-; Stable / CARE A2+ (01-Aug-22)	1)CARE A-; Stable / CARE A2+ (31-Dec-21)	-

*Long term/Short term.

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

Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	LT/ST Fund-based/non-fund-based-CC/WCDL/OD/LC/BG	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please [click here](#)

Note on the 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 Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Hardik Manharbhai Shah Director CARE Ratings Limited Phone: +91-22-6754 3591 E-mail: hardik.shah@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 91-22-6754 3404 E-mail: saikat.roy@careedge.in	Akhil Kumar Associate Director CARE Ratings Limited Phone: +91-12-0445 1986 E-mail: akhil.kumar@careedge.in
	Shruti Rachchh Analyst CARE Ratings Limited E-mail: shruti.r@careedge.in

About us:

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