Atul Limited

October 10, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	145.00 (Enhanced from 127.00)	CARE AA+; Stable	Reaffirmed
Short Term Bank Facilities	417.50 (Enhanced from 350.50)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Atul Limited (Atul) continue to derive strength from its established track record and strong market position in the chemical industry with a diversified product portfolio. The ratings also derive strength from the wide end-user industries along with diversified clientele, leadership position in some of its high-value specialty products as well as strong research and development (R&D) setup. The ratings also take cognisance of vast experience of its promoters along-with its competent management, 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 its dependence for key intermediates. The rating strengths of Atul are also moderated due to the competition from China 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.

Rating sensitivities: Factors likely to lead to rating actions

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 /PBILDT beyond 1x on sustained basis
- 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.

Analytical approach:

CARE Ratings Limited (CARE Ratings) has adopted a 'Consolidated' approach for Atul on account of its strong operational and financial linkages with its subsidiaries and their common management. The list of entities getting consolidated has been placed at **Annexure-6**

Outlook: Stable

The 'Stable' outlook on the rating reflects that the rated entity shall continue to remain a dominant player in the chemical business with integrated operations. Furthermore, CARE Ratings expects the entity to maintain its comfortable financial risk profile amidst healthy cash accruals with absence of any large debt-funded capex plans in the near term.

Detailed description of key rating drivers:

Key strengths

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 69% during FY24 (refers to the period April 1 to March 31), wherein polymers, aromatics and colours are the major contributors, while that of LSC stood at 31% of the net sales, wherein crop protection segment is the major contributor. Over the years, Atul has emerged as a prominent player in

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited'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 83 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 FY24.

Presence in research-oriented specialty chemicals leading to healthy profitability despite industry headwinds in FY24
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 situation around a decade ago. During FY24, the LSC segment witnessed decline in sales by 27%, while the POC segment witnessed decline in the sales by 5% on y-o-y basis leading to reduction in consolidated total operating income (TOI) of the company by 13% on y-o-y basis to ₹4,728 crore during FY24, majorly impacted by Crop protection segment facing headwinds followed by Polymers segment. Further, there was delay in implementation of projects, delay in reaching expected performance in product quality and production, unexpected breakdowns in manufacturing & low-capacity utilisation.
The PBILDT margin of Atul moderated to 13.57% during FY24 vis-à-vis 15.33% in FY23 primarily owing to higher coal and freight costs, subdued demand from some of its key consuming industries/ key export markets, delay in implementation of some of its projects and faster dip in finished goods prices as compared to raw material prices. However, Atul's profitability has improved to 16.88% during Q1FY25, and CARE Ratings expects its operating profitability to remain in the range of around 14%-15% in the near term.

Comfortable leverage with strong debt coverage indicators
On a standalone basis, Atul only had cash credit limits on its books as on March 31, 2024. Furthermore, on consolidated basis, the company's overall gearing has remained below 0.10x over past six years ended FY24 and the same is expected to continue over the medium term. Its debt coverage indicators also stood very strong marked by interest coverage of 57.90x and total debt/PBILDT of 0.37x during FY24. 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 0.50x in the near to medium term.

Vast 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 12 directors on Atul's Board, there are eight 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 ₹15.32 crores towards 38 social welfare programmes during FY24 (refers to the period April 1 to March 31). Furthermore, Atul is an R&D-focused chemical company.

Liquidity: Strong
The liquidity profile 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 additional debt for its capex, however, it is expected to fund its entire capex requirement from its healthy internal accruals and available liquidity. The utilisation of its fund-based working capital limits remained about 3% over the trailing 12 months ended July 2024. Accordingly, its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year. The company has significant liquidity of ₹496 crore in the form of cash, investments in liquid and arbitrage mutual funds; along with ₹902 crore in the form of investments in quoted equity shares (mainly in Pfizer Limited) and bonds as on March 31, 2024. Furthermore, the company has been regularly generating healthy cash flow from operations. Its current ratio was also very strong at 2.32x as on March 31, 2024.

Key weaknesses

Exposure to volatility in crude oil-based raw material prices along-with presence in a competitive and cyclical chemical industry
As majority of the raw materials of Atul are derivatives of crude oil, their prices 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. Furthermore, Atul is also dependent on China for certain key intermediates required by its crop protection and dye-stuff sub-segments. During FY24, around 28% of its total raw material requirement, i.e., around ₹718

crore was imported and around 15% of the same was procured from China. During FY23 and FY24, due to rise in crude prices, higher freight costs, reduction in finished goods prices among other factors, the operating profitability of Atul was impacted marked by reduction in its PBILDT margin to 15.33% during FY23 and further to 13.57% during FY24. 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 28% 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, 2024, its net unhedged foreign exchange exposure stood at ₹238 crore on a consolidated basis.

Large-size capex impacting its return indicators

Atul, on a consolidated basis, incurred an aggregate capex of nearly ₹2000 crore over the last three years ended FY24. However, due to industry slowdown, returns from these projects have been delayed impacting its return on capital employed (ROCE) which has steeply declined from 25.70% in FY21 to 13.72% in FY24. CARE Ratings expects Atul's return indicators to remain in the range of 10% to 14% in the near to medium term on the back of slowdown in the chemical industry.

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 on a daily basis 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. 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. 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. After almost three years from its original proposal, 'The Ministry of Agriculture and Farmers Welfare' with Government of India by Gazette Notification dated September 29, 2023, but published on October 06, 2023, banned only 4 out of total 27 pesticides which were there in the original list, namely, dicofol, methomyl, dinocap and monocrotophos. Further, an updated list of banned pesticides was released as on March 31, 2024. Ban on any additional products will remain key monitorable.

Environment, social, and governance (ESG) risk assessment

Risk factors	Compliance and action by the company
Environmental	Company did Installation of additional MEE, scrubbers, effluent treatment plants with Introduction of additional steam condensate and energy recovery system, Upgradation of fire alarm sensors and fire alarm system. ZLD has been fully implemented at company's Ankleshwar and Tarapur manufacturing sites. The company has in-house facilities to recycle its waste. Atul has been awarded the best 'Sustainability Impact Initiatives Award' for a decade of sustainable zero liquid discharge (ZLD) operations at its Ankleshwar site, which is the only zero liquid discharge para-Cresol plant in the world, and the 'Sustainability Leader of the Year Award' for notable contributions to sustainability initiatives in Atul. The company conducted demonstration sessions of sewage treatment plants and awareness of natural resource management for students of Kalyani Shala and EMRS Pardi and explained the importance of water and measures for water conservation.
Social	Company provided sports and music kits to 100 schools, education kits to children, support to Lalbhai Dalpatbhai Institute of Indology along with provision of scholarships to needy and meritorious students.
Governance	Around 67% of the Atul's board comprises of independent directors. Company has a dedicated investor grievance redressal mechanism and healthy disclosures

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Manufacturing Companies
Financial Ratios – Non financial Sector

[Short Term Instruments](#)
[Consolidation](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

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 Consolidated (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25(UA)
Total operating income	5,457	4,728	1,322
PBILDT	836	642	223
PAT	507	324	112
Overall gearing (times)	0.01	0.05	NA
Interest coverage (times)	105.88	57.90	41.49

A: Audited UA: Unaudited; Note: these are latest available financial results; NA: Not available

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: 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 and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	145.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC		-	-	-	417.50	CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based - LT-Cash Credit	LT	145.00	CARE AA+; Stable	-	1)CARE AA+; Stable (24-Aug-23)	1)CARE AA+; Stable (03-Aug-22)	1)CARE AA+; Stable (03-Aug-21)
2	Non-fund-based - ST-BG/LC	ST	417.50	CARE A1+	-	1)CARE A1+ (24-Aug-23)	1)CARE A1+ (03-Aug-22)	1)CARE A1+ (03-Aug-21)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (03-Aug-22)	1)CARE A1+ (25-Nov-21)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Annexure-6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1	Aaranyak Urmi Ltd	Full	Significant operational and financial linkages
2	Aasthan Dates Ltd	Full	Significant operational and financial linkages
3	Amal Ltd	Full	Significant operational and financial linkages
4	Amal Speciality Chemicals Limited	Full	Significant operational and financial linkages
5	Atul Aarogya Ltd	Full	Significant operational and financial linkages
6	Atul Adhesives Pvt Ltd	Full	Significant operational and financial linkages
7	Atul Ayurveda Ltd	Full	Significant operational and financial linkages
8	Atul Bioscience Ltd	Full	Significant operational and financial linkages
9	Atul Biospace Ltd	Full	Significant operational and financial linkages
10	Atul Brasil Qumicos Ltda	Full	Significant operational and financial linkages
11	Atul China Ltd	Full	Significant operational and financial linkages
12	Atul Clean Energy Ltd	Full	Significant operational and financial linkages
13	Atul Crop Care Ltd	Full	Significant operational and financial linkages
14	Atul Consumer Products Ltd	Full	Significant operational and financial linkages
15	Atul Deutschland GmbH	Full	Significant operational and financial linkages
16	Atul Entertainment Ltd	Full	Significant operational and financial linkages
17	Atul Europe Ltd	Full	Significant operational and financial linkages
18	Atul Finserv Ltd	Full	Significant operational and financial linkages
19	Atul Fin Resource Ltd	Full	Significant operational and financial linkages
20	Atul Healthcare Ltd	Full	Significant operational and financial linkages
21	Atul Hospitality Ltd	Full	Significant operational and financial linkages
22	Atul Infotech Private Ltd	Full	Significant operational and financial linkages
23	Atul Ireland Ltd	Full	Significant operational and financial linkages
24	Atul Lifescience Ltd	Full	Significant operational and financial linkages
25	Atul Middle East FZ-LLC	Full	Significant operational and financial linkages
26	Atul Natural Dyes Limited	Full	Significant operational and financial linkages
27	Atul Natural Foods Limited	Full	Significant operational and financial linkages
28	Atul Nivesh Ltd	Full	Significant operational and financial linkages
29	Atul Paints Ltd	Full	Significant operational and financial linkages
30	Atul Polymers Products Ltd	Full	Significant operational and financial linkages
31	Atul Products Ltd	Full	Significant operational and financial linkages
32	Atul Rajasthan Date Palms Ltd	Full	Significant operational and financial linkages
33	Atul Renewable Energy Ltd	Full	Significant operational and financial linkages
34	Atul (Retail) Brands Ltd	Full	Significant operational and financial linkages
35	Atul Seeds Ltd	Full	Significant operational and financial linkages
36	Atul USA Inc	Full	Significant operational and financial linkages
37	Biyaban Agri Ltd	Full	Significant operational and financial linkages
38	DPD Ltd	Full	Significant operational and financial linkages
39	Jayati Infrastructure Ltd	Full	Significant operational and financial linkages
40	Osia Dairy Ltd	Full	Significant operational and financial linkages
41	Osia Infrastructure Ltd	Full	Significant operational and financial linkages
42	Raja Dates Ltd	Full	Significant operational and financial linkages
43	Sehat Foods Ltd	Full	Significant operational and financial linkages
44	Valsad Institute of Medical Sciences Ltd	Proportionate	Significant operational and financial linkages
45	Anaven LLP	Proportionate	Significant operational and financial linkages
46	Rudolf Atul Chemicals Ltd	Proportionate	Significant operational and financial linkages

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for 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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