Amal Limited

January 21, 2022

Ratings

Sr. No.	Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
(i)	Long-term Bank Facilities #	-	-	Withdrawn
(ii)	Long-term Bank Facilities @	4.00	CARE A+ (CE); Stable (Single A Plus (Credit Enhancement); Outlook: Stable)	Assigned
	Total Bank Facilities	4.00 (Rs. Four crore only)		

Details of facilities in Annexure-1

 # This bank facility of Amal Limited was proposed to be availed based on the credit enhancement in the form of a proposed unconditional and irrevocable corporate guarantee to be issued by Atul Ltd. However, this bank facility has not yet been availed by the company. Also, the corporate guarantee of Atul Ltd. has not been extended for this bank facility till date. Going forward also the aforesaid bank facility will not be availed with the corporate guarantee of Atul Ltd. Hence, the provisional rating assigned earlier to this bank facility of Amal Limited based on the proposed corporate guarantee to be issued by Atul Ltd. now stands withdrawn.

@ The rating for this bank facility of Amal Limited is based on the credit enhancement in the form of a letter of comfort extended by Atul Ltd.

Unsupported Rating [2]	**CARE A- (Single A Minus) [Reaffirmed]**

Unsupported rating does not factor-in the explicit credit enhancement in the form of a letter of comfort from Atul Ltd.

Detailed Rationale & Key Rating Drivers for the Credit Enhanced Debt

The rating assigned to the bank facilities of Amal Limited (Amal) at Sr. No. (ii) in the above table is based on the credit enhancement in the form of a Letter of Comfort (LOC) extended by Atul Limited (Atul; rated 'CARE AA+; Stable / CARE A1+').

Detailed Rationale & Key Rating Drivers of the LOC provider, 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 cyclical chemical industry.

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, 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 leading to moderation in profitability during H1FY22 (FY refers to April 1 to March 31), 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 project is at an advanced stage of implementation and the offtake agreement executed with Atul is likely to mitigate the post-implementation project risk to a large extent.

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

[2] *As stipulated vide SEBI circular no SEBI/ HO/ MIRSD/ DOS3/ CIR/ P/ 2019/ 70 dated June 13, 2019*

Rating Sensitivities (of the LOC provider, Atul)

Positive Factors – Factors that could lead to positive rating action/upgrade:

- 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 – Factors that could lead to negative rating action/downgrade:

- Any large debt-funded capex/ acquisition which deteriorates its total debt /gross cash accruals (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 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 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. Furthermore, 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 67% during FY21 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 92 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

Atul was earlier one of the largest dyestuff manufacturing companies in India; however, through its strong R&D initiatives, joint venture (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 favourable input prices.

During H1FY22, Atul witnessed significant improvement in sales by 39% on y-o-y basis on the back of higher demand from the end-user industries and increased market prices of its products. However, rise in inputs costs in H1FY22 has led to some moderation in operating profitability marked by PBILDT margin of 21.38% during H1FY22. CARE Ratings Ltd. 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. Its debt coverage indicators also stood very strong marked by Interest coverage of 106.07 times and Total debt/GCA of 0.25 years during FY21. Its Total Debt/PBILDT was also very comfortable at 0.21 times during FY21. Furthermore, majority of the term loans in its subsidiary entities have been prepaid during H1FY22 through funding from Atul in the form of Inter corporate deposits. Hence, Atul's consolidated overall gearing improved and continued to be very comfortable at 0.02 times as on September 30, 2021 and its interest coverage also stood very strong at 132.23 times during H1FY22. On the back of its envisaged healthy generation of operating cash flows and funding of planned capex through its available strong liquidity, CARE Ratings Ltd. 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 12 months ended October 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.683 crore in the form of cash, investments in liquid and arbitrage mutual funds; along with Rs.896 crore in the form of investments in quoted equity shares and bonds (mainly in Pfizer Limited) as on September 30, 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 and around 20%-25% of the same was procured from China. In latter part of FY20 and 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 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 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 a 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. From the list of these 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 the 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 Amal are backed by letter of comfort from Atul.
CARE Ratings Ltd. 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 5

For Un-supported Rating: Amal's consolidated financials on account of expected business synergies with its sole subsidiary (Amal 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
Policy on withdrawal of 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 Financials - Consolidated (Rs. Crore)	FY20 (A)	FY21 (A)	H1FY22 (Prov.)
Total operating income	33.66	31.65	14.13
PBILDT	15.02	12.48	(1.45)
PAT	9.19	8.80	(1.94)
Overall gearing (times)	0.18	0.17	0.35
Interest coverage (times)	7.15	17.13	NM

A: Audited, Prov.: Provisional, NM: Not meaningful

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)	H1FY22 (Prov.)
Total operating income	4,147	3,814	2,381
PBILDT	957	992	509
PAT	671	660	311
Overall gearing (times)	0.06	0.05	0.02
Interest coverage (times)	101.77	106.07	132.23

A: Audited; Prov.: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating History for last three years: Annexure-2

Covenants of rated instrument/facility: Not applicable

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

Annexure-1: Details of Facilities

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

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 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	-	Withdrawn	1)Provisional CARE AA+ (CE); Stable (16-Aug-21)	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- (16-Aug-21)	1)CARE A- (08-Feb-21)	-	-
3	Fund-based - LT-Cash Credit	LT	4.00	CARE A+ (CE); Stable				

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

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

Annexure 4: Bank Lender Details for this Company

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

Annexure 5: 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

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

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About CARE Ratings Limited:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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