

Atul Products Limited

December 31, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term/Short-term Bank Facilities	125.00	CARE A-; Stable/ CARE A2+ (Single A Minus; Outlook: Stable/ A Two Plus)	Assigned
Total	125.00 (Rs. One hundred twenty-five crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Atul Products Limited (APL) draw significant comfort from its strong parentage being a wholly-owned subsidiary of Atul Limited (Atul; rated CARE AA+; Stable/ CARE A1+), whereby the entire project cost of APL's ongoing greenfield caustic-chlorine and related captive power plant is envisaged to be financed through fund infusion by Atul. The ratings also derive comfort from Atul's experience in setting-up and operating caustic-chlorine manufacturing facilities, envisaged synergies from the captive power plant, location benefits, some captive consumption of APL's products by Atul and improved industry scenario.

The ratings are, however, constrained by inherent risks associated with timely implementation and stabilization of the green-field project within envisaged cost parameters, post implementation risk in the backdrop of inherent cyclicity associated with the caustic-chlorine industry and requirement of continuous compliance with stringent pollution control norms.

Rating Sensitivities

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

- Timely implementation of the project within envisaged cost parameters and stabilization of its commercial operations
- Total operating income (TOI) exceeding Rs.450 crore while achieving PBILDT margin of around 40%

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

- Change in stance of support to APL from Atul; and/or APL not remaining a majority-owned subsidiary of Atul.
- Significant time and cost overrun in the ongoing project adversely impacting its leverage and debt coverage indicators
- Inability to ramp up its scale of operations marked by annual TOI of less than Rs.300 crore post commissioning of project
- PBILDT margin of less than 30% on a sustained basis and its adverse impact on its debt coverage indicators

Detailed description of the key rating drivers

Key Rating Strengths

Strong parentage of Atul

APL draws significant comfort from its strong parentage, being a wholly-owned subsidiary of Atul, whereby the entire project cost of APL's ongoing greenfield caustic-chlorine and related captive power plant is envisaged to be 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 and Performance & Other Chemicals catering to the requirement of diversified industries like textile, paints & coatings, adhesives, dyestuff, agriculture, fragrance & flavours, cosmetic, personal care, tyre, paper, plastic, pharmaceutical (API and API intermediates), aerospace, composites, construction, glass, etc. The credit risk profile of Atul is strong.

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 implementation and stabilization of its project as its entire management team comprises of personnel 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.

Entire project cost being funded by Atul

Total cost of the ongoing greenfield project of APL is envisaged at around Rs.818 crore (including GST of Rs.125 crore on capital goods and services) which is proposed to be entirely funded by equity capital, preference share capital and extension of unsecured loan by Atul. APL has planned to avail capex LCs out of its sanctioned limit from the bank for import of machineries for the project which would be ultimately settled with the infusion of funds by Atul.

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

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. Out of total capacity of 300 TPD of caustic-chlorine of APL, around 200 TPD is proposed to be in the form of lye while the remaining 100 TPD is envisaged to be in the form of flakes. Caustic soda in the lye form is planned to be entirely sold in the market whereas 1/3 of the caustic soda flakes would be sold to Atul and balance would be sold in the domestic as well as export markets. Similarly, part of the chlorine to be produced by APL would be consumed by Anaven LLP which has set-up a project for manufacturing Monochloroacetic Acid (MCA) in Joint Venture (JV) between Atul & Nouryon. Gradually, supplies from APL to Atul is expected to go up. Further, as most of the chlor-alkali manufacturers are located at Dahej SEZ whereas there are lot of chemical companies in South Gujarat, it entails high freight cost. Accordingly, APL is expected to tap the requirement of caustic-chlorine for the chemical companies in South Gujarat due to its greater proximity to them.

Envisaged synergies from the planned captive power plant

Power cost is one of the most critical cost components for manufacturing caustic-chlorine. During electrolysis of salt, there is high power consumption leading to nearly 40% contribution of power cost in total cost of production of caustic soda. APL is setting up a 50 MW captive power plant (CPP) along-with caustic soda plant. Out of total 50 MW CPP, around 35-36 MW capacity would be sufficient to run the caustic soda plant at full capacity. Having a CPP is expected to result in economical cost of power compared to high cost of power from the grid.

Liquidity: Adequate

Liquidity of APL derives comfort from its parentage of Atul which has large liquidity. Atul has already invested funds of Rs.125 crore in APL by November 30, 2021. Atul is planning to invest Rs.200 crore in FY22 and balance in FY23. Atul had significant liquidity of Rs.683 crore in the form of cash, investments in liquid and arbitrage mutual funds; apart from Rs.896 crore in the form of investments in quoted equity shares and bonds (mainly in Pfizer Limited) as on September 30, 2021.

Key Rating Weaknesses

Inherent project risks associated with timely implementation and stabilization of the green-field capex

APL's project is envisaged to achieve Commercial Operations Date (COD) by December 2022. The project execution work is handled by an in-house team of APL which has planned to execute the project by awarding various packages for the project work to reputed contractors. APL has placed purchase orders for nearly 60% of the total project works by November 30, 2021. However, it is susceptible to the inherent risks associated with the implementation of such a large project within envisaged cost and timelines. Furthermore, in order to be eligible for lower income tax rate applicable for newly set-up companies, APL is required to achieve CoD for the project latest by March 2023. Accordingly, timely completion of the project would be critical for achieving overall project returns.

Cyclical associated with caustic-chlorine industry

Profitability of caustic soda manufacturing companies is linked to the prevailing Electro – chemical unit (ECU) realisations. Cyclical downturns, or adverse variability in the demand-supply balance, may drag down ECU realisations for caustic soda players. After witnessing a cyclical downturn during FY20 and FY21, ECU realisations have significantly improved in 8MFY22. However, going forward large size caustic soda capacities are expected to come onstream by various industry players (including by APL) by end-FY22 and FY23 which could again put pressure on the ECU realisations.

Requirement of compliance with stringent pollution control norms

Operations of APL are subject to various environment related regulatory compliances in a stringent manner. Also, pollution related norms are evolving day by day 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.

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

Applicable Criteria:

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

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

[Criteria for Short Term Instruments](#)

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

[Rating Methodology – Manufacturing Companies](#)

[Rating Methodology – Project Stage Companies](#)

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

[Financial ratios – Non-Financial sector](#)

About the Company

APL is a 100% subsidiary of Atul. APL has been incorporated to take up a green-field project to set-up manufacturing facility for 300 Tonne Per Day (TPD) of caustic-chlorine along-with 50 MW of coal-based captive power plant. The manufacturing facility is

being set-up within Atul's campus on land given on lease by Atul to APL. The project is expected to achieve COD by December 2022. Total cost of the project is envisaged at around Rs.818 crore which is planned to be funded by equity capital, preference capital and extension of unsecured loan by Atul.

Brief Financials- Not Applicable as APL is presently a project stage entity

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: Annexure - 3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of Instruments / 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/Non-fund-based-LT/ST		-	-	-	110.00	CARE A-; Stable / CARE A2+
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	15.00	CARE A-; Stable / CARE A2+

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/Non-fund-based-LT/ST	LT/ST*	110.00	CARE A-; Stable / CARE A2+				
2	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	15.00	CARE A-; Stable / CARE A2+				

* Long Term / Short Term

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

Sr. No	Name of instrument	Detailed explanation
1	Bank Facilities	
	Financial covenants	TOL/TNW not to exceed 0.50 times (treating USL from Atul Ltd. as quasi-equity) Debt / EBITDA not above 1.00 times
	Non-financial covenants	Atul Ltd. to hold 100% stake in the company during the currency of loan with bank

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based/Non-fund-based-LT/ST	Simple
2	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Annexure 5: Bank Lender Details for this Company:

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

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.

Contact us

Media Contact

Name: Mradul Mishra
Contact No.: +91-22-6754 3596
Email ID: mradul.mishra@careedge.in

Analyst Contact

Name: Hardik Shah
Contact no.: +91-79-4026 5620
Email ID: hardik.shah@careedge.in

Relationship Contact

Name: Deepak Prajapati
Contact no.: +91-79-4026 5656
Email ID: deepak.prajapati@careedge.in

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.

Disclaimer

The ratings issued by CARE Ratings Limited are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. These ratings do not convey suitability or price for the investor. The agency does not constitute an audit on the rated entity. CARE Ratings Limited has based its ratings/outlooks based on information obtained from reliable and credible sources. CARE Ratings Limited does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions and the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE Ratings Limited have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE Ratings Limited or its subsidiaries/associates may also be involved with other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE Ratings Limited is, inter-alia, based on the capital deployed by the partners/proprietor and the current financial strength of the firm. The rating/outlook may undergo a change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors. CARE Ratings Limited is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE Ratings Limited's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

****For detailed Rationale Report and subscription information, please contact us at www.careedge.in**