

Atul Limited

August 31, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	57.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	205.00 (enhanced from Rs.145.00 crore)	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	262.00 (Rupees Two Hundred Sixty Two Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Atul Limited (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 continue to be underpinned by its largely stable scale of operations in FY20 (refers to the period April 1 to March 31) along with improvement in its 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.

Rating Sensitivities

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 /GCA beyond 2x 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

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of the promoters in chemical industry along-with competent management

Atul is presently headed by third generation entrepreneur Shri 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, ICAI and ICSI; and a Post Graduate Diploma in Management from IIM-Ahmedabad. Further, 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 69% during FY20 wherein polymers, aromatics and colours were the major contributors while that of LSC stood at 31% of the net sales wherein

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

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. Further, 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 15% of its total net sales during FY20. Going forward, since majority of company's sales i.e., 94% is in B2B segment, the management plans to focus on increasing retail sales where profitability margins are even better.

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, 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 FY20, LSC segment witnessed de-growth in sales by 9% but on the other hand, POC segment witnessed growth in sales by 4% on y-o-y basis. Consolidated Total Operating Income (TOI) of the company remained largely stable at Rs.4,147 crore during FY20 as compared with Rs.4,068 crore during FY19. The PBILDT margins of Atul improved by 344 bps to 23.07% during FY20 on the back of increase in sales realization of majority of its products and favorable input prices.

During Q1FY21, the sales of Atul were impacted due to Covid induced lockdowns. However, there was significant improvement in sales from the month of June 2020. Also, its PBILDT margin improved significantly during Q1FY21 to 28.46% due to lower cost of its crude based raw materials.

Comfortable leverage with strong debt coverage indicators

On a standalone basis, Atul had no debt as on March 31, 2020. Also, on a consolidated level, its leverage stood at a very comfortable level of 0.06 times as on March 31, 2020. Its debt coverage indicators also stood very strong marked by Interest coverage of 101.77 times & Total debt/GCA of 0.23 years during FY20. Its Total Debt/PBILDT, too, was very comfortable at 0.18 times during FY20.

Liquidity: Strong

The liquidity of Atul is strong marked by healthy cash accruals against negligible term debt repayment obligations. Further, the company has been regularly generating healthy cash flow from operations and the same stood at Rs.819 crore during FY20. Atul declared an interim dividend of 125% to commemorate the 125th birth anniversary of its founder (Late Kasturbhai Lalbhai) and declared a further interim dividend of 150% considering the best-ever performance of the company during FY20. Hence, the total interim dividend pay-out stood at Rs.151.50 crore during FY20. Despite the aforesaid dividend pay-out, the company had significant liquidity of Rs.684 crore in the form of cash, investments in liquid and arbitrage mutual funds; along with Rs.466 crore in the form of investments in quoted equity shares (mainly in Pfizer Limited) as on March 31, 2020. With an overall gearing of 0.06 times as of March 31, 2020, it has sufficient gearing headroom, to raise additional debt for its capex. The utilization of its fund based working capital limits remained less than 1% over the trailing twelve months ended June 2020. Accordingly, its unutilized bank lines are more than adequate to meet its incremental working capital needs over the next one year. Its current ratio was also very strong at 2.84 times as on March 31, 2020. Also, the company has not availed any moratorium on its debt obligations, the option for which was available to it as a Covid relief measure, as permitted by Reserve Bank of India's (RBI) package, which further underscores its strong liquidity.

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 onto 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 fluctuations. 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. Further, Atul is also dependent on China for

certain key intermediates required by its crop protection and dyestuff sub-segments. Around 32.50% of the total raw material (RM) requirement i.e., around Rs.650 crore is imported and around Rs.150 crore of the RM is procured from China as indicated by the management. On account of Covid-19 pandemic, Atul did face some issues with logistics in import of these RM from China from beginning of this year till May; however currently there are no major issues being faced in importing these RM. Moreover, as the RMs imported from China are basic chemicals, its alternatives are easily available although at higher cost from other countries. Nevertheless, chemical industry is highly competitive and susceptible to cyclical 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 32.50% 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.550 crore per annum during each of the next three years-ended FY23 towards increasing manufacturing capacity of products where there is good demand, various debottlenecking projects, routine capex and meeting environmental compliance norms alongwith residual capex towards its on-going project under its Joint Venture (JV) named Anaven LLP with Nouryon Chemical International B.V. for setting up manufacturing facility for the production of Monochloroacetic acid (MCA) at Atul's plant in Gujarat with an installed capacity of 32,000 metric tonne per annum (MTPA) which is expected to start commercial production with some delay from September 2020. Due to Covid 19 situation and resultant uncertainty, Atul has not yet firmed up its capex plan for FY21. It is holding back any significant capex in near future till the time further clarity on demand emerges from the market as it has adequate installed capacities to meet current market demand. Also, Atul hasn't envisaged to avail any debt for its own capex plans and all future capex is also likely to be aligned with its internal accruals. Atul's ability to implement these projects in a timely manner and generate envisaged returns thereof to increase 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' on May 14, 2020 the GoI proposed placing of 27 insecticides into banned category. From the list of these 27 insecticides, Atul is into manufacturing and sales of 2,4 D herbicide which comprises of around 50% of total sales of its crop protection segment i.e., around Rs.350 crore. However, as indicated by the company's management, representation by industry association has been made to the government against the drawbacks of this notification. Furthermore, sales of 2,4 D constitutes less than 10% of Atul's total sales; and moreover, around 70-80% of 2,4 D sales of Atul is towards the export market wherein as per latest updates the exports of these insecticides shall be allowed on case to case basis. 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: Consolidated

CARE has adopted 'Consolidated' approach for Atul on account of strong operational & financial linkages among Atul and its subsidiaries and their common management. The list of entities getting consolidated has been placed at **Annexure 4**.

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: Consolidation and Factoring Linkages in Ratings](#)

[Rating Methodology-Manufacturing Companies](#)

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

About the Company

Atul Limited (Atul) was originally promoted by Padma Bhushan Late Shri Kasturbhai Lalbhai in 1947 as Atul Products Ltd. as a step towards backward integration of their cotton textile business 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)	FY19 (A)	FY20 (A)
Total operating income	4,068	4,147
PBILDT	798	957
PAT	436	671
Overall gearing (times)	0.04	0.06
Interest coverage (times)	107.72	101.77

A: Audited

As per published consolidated results, Atul reported TOI of Rs.701 crore with a PAT of Rs.118 crore in Q1FY21 as against TOI of Rs.1,051 crore with a PAT of Rs.149 crore in Q1FY20; its sales were impacted during part of Q1FY21 due to disruptions caused by imposition of lockdown to control the spread of the Covid-19 pandemic.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

Annexure-1: Details of Instruments/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	-	-	-	57.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	205.00	CARE A1+

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	57.00	CARE AA+; Stable	1)CARE AA+; Stable (24-Aug-20)	1)CARE AA+; Stable (04-Oct-19)	1)CARE AA+; Stable (27-Sep-18)	1)CARE AA+; Stable (06-Oct-17)
2.	Non-fund-based - ST-BG/LC	ST	205.00	CARE A1+	1)CARE A1+ (24-Aug-20)	1)CARE A1+ (04-Oct-19)	1)CARE A1+ (27-Sep-18)	1)CARE A1+ (06-Oct-17)
3.	Commercial Paper- Commercial Paper (Standalone)	ST	-	-	-	-	1)Withdrawn (16-Nov-18) 2)CARE A1+ (27-Sep-18)	1)CARE A1+ (06-Oct-17)

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.	Non-fund-based - ST-BG/LC	Simple

Annexure-4: List of entities getting consolidated in Atul

Sr. No.	Name of the Company	% stake held by Atul as on March 31, 2020
1	Aaranyak Urmi Ltd	100
2	Aasthan Dates Ltd	100
3	Amal Ltd	50
4	Anchor Adhesives Private Ltd	100
5	Atul Aarogya Ltd	100
6	Atul Ayurveda Ltd	100
7	Atul Bioscience Ltd	100
8	Atul Biospace Ltd	100
9	Atul Brasil Qumicos Ltd	100
10	Atul China Ltd	100
11	Atul Clean Energy Ltd	100
12	Atul Crop Care Ltd	100
13	Atul Deutschland GmbH	100
14	Atul Entertainment Ltd	100
15	Atul Europe Ltd	100
16	Atul Finserv Ltd	100
17	Atul Finresource Ltd	100
18	Atul Hospitality Ltd	100
19	Atul Infotech Private Ltd	100
20	Atul Ireland Ltd	100
21	Atul Middle East FZ-LLC	100
22	Atul Nivesh Ltd	100
23	Atul Polymers Products Ltd (Formerly known as Atul Elkay Polymers Ltd)	100
24	Atul Rajasthan Date Palms Ltd	74
25	Atul (Retail) Brands Ltd	100
26	Atul Seeds Ltd	100
27	Atul USA Inc	100
28	Biyaban Agri Ltd	100
29	DPD Ltd	98
30	Jayati Infrastructure Ltd	100
31	Lapox Polymers Ltd	100
32	Osia Dairy Ltd	100
33	Osia Infrastructure Ltd	100
34	Raja Dates Ltd	100
35	Anaven LLP	50
36	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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