Atul Limited

September 27, 2018

Ratings

Bank Facilities / Instruments	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	438.00	**CARE AA+; Stable [Double A Plus; Outlook: Stable]**	Reaffirmed
Short-term Bank Facilities	92.00	**CARE A1+ [A One Plus]**	Reaffirmed
Total Bank Facilities	**530.00 (Rupees Five Hundred Thirty Crore Only)**		
Commercial Paper (CP)	300.00	**CARE A1+ [A One Plus]**	Reaffirmed
Total Instruments	**300.00 (Rupees Three Hundred Crore Only)**		

Details of facilities / instruments in Annexure I

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities/instruments of Atul Limited (Atul) continue to derive strength from the wide experience of the promoters and its competent management, established track record and strong market position in the chemical industry with diversified product portfolio, leadership position in some of its high-value products, strong Research & Development (R&D) setup leading to gradual shift in its product mix over last few years to research oriented niche segments and its established customer base. The ratings continue to take into account Atul's healthy profitability, low leverage and strong liquidity as well as debt coverage indicators.

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.

Atul's ability to significantly increase its scale of operations while further expanding its profitability through greater foray in to value-added products and thereby largely insulate its profitability against raw material price volatility and competitive pressures even in a scenario of adverse business environment shall be the key rating sensitivities. Atul's ability to efficiently manage its foreign currency exposure, ensure continuous adherence to prevailing pollution control/environmental norms and improve its return on capital employed (RoCE) by generating superior returns from its completed projects shall also be the key rating sensitivities.

Detailed description of key rating drivers

Key Rating Strengths

Wide experience of the promoters in chemical industry along-with competent management: Atul is headed by third generation entrepreneur Shri Sunil Lalbhai, Chairman and Managing Director, who is a technocrat and is supported by well qualified and experienced senior management. The Board of Atul comprises eminent personalities having very rich experience in the fields of chemical, petrochemicals, finance, taxation, law, etc.

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, fragrance & flavours, tyre, paper, aerospace, construction, agriculture, pharmaceutical, etc. Out of the two segments, contribution of POC in net sales stood at 66% during FY18 wherein polymers, aromatics and colours were the major contributors while that of LSC stood at 34% 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, not only in India but also in the global market having strong clientele including global chemical majors. It also enjoys fairly good market share in many of these product segments (including p-Cresol). 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.

Steady shift in product-mix from commodity grade to research oriented specialty chemicals leading to healthy profitability over the years; albeit some moderation during FY18: 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

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

areas of aromatics, crop protection, polymers and pharma intermediates which are speciality chemicals as compared to conventional dyestuff products; the same has led to better profitability which has also shown greater degree of resilience compared to the scenario of past years. During FY18, LSC and POC segments witnessed growth in sales by 27% and 10% respectively with 43% growth in crop protection division in LSC segment and growth of 27%, 14% and 11% respectively in bulk intermediates, polymers and colors division in POC segment as compared to the corresponding previous year. However, PBIT margins of both the segment witnessed some moderation on the back of exchange rate fluctuations and increase in raw material prices which has led to decline in, overall PBILDT margins of the company from 18% during FY17 to 16% during FY18. However, it continued to remain healthy. The PBILDT margins of Atul stood healthy at 17% during Q1FY19.

Low leverage along with strong debt coverage and liquidity indicators: During FY18, the company has repaid its entire fund-based debt thereby further strengthening of its leverage as reflected by improvement in its overall gearing (including acceptances) from 0.11 times as on March 31, 2017 to 0.03 times as on March 31, 2018. Debt coverage indicators, too, continued to remain strong during FY18 and Q1FY19. Atul also had strong liquidity indicators marked by healthy current ratio, negligible working capital limit utilization and market value of quoted investments at Rs.457 crore as on March 31, 2018.

Key Rating Weaknesses

Exposure to raw material price volatility and dependency on China: Most of the 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. Atul faces competition from China in its aromatics sub-segment and is also dependent on China for sourcing of certain key intermediates required by its crop protection and dyestuff sub-segments. Major variations in the prices as well as any disruption in production of these products in China can impact the performance of these sub-segments of Atul as reflected in performance of FY17 and FY18. Also, chemical industry is susceptible to cyclicality in demand which is linked to various domestic and global factors. Besides, Atul has incurred capital expenditure of around Rs.800 crore during FY15-FY18; returns from which are not yet fully realised as reflected in decline in ROCE during this period. Hence, Atul's ability to generate envisaged returns from the completed capex leading to improvement in its RoCE shall be key rating sensitivity.

Exposure to foreign exchange rate fluctuations: Atul has geographically diversified sales with around 50% share of exports in its total operating income(TOI) thereby exposing it to foreign exchange rate fluctuations. However, it enjoys benefit of partial natural hedge with imports of around 31% of its raw material requirement. Furthermore, the net exports are hedged using forward contracts and currency options. Atul has also adopted more stringent approach wherein 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 an extent.

Planned capex: Atul had entered in to an agreement to set up a manufacturing Joint Venture (JV) with Akzo Nobel for the production of Monochloroacetic acid (MCA) at Atul's plant in Gujarat with capacity of 60,000 metric tonne per annum (MTPA). A part of its output would be used for Atul's captive consumption. The project is expected to be completed by June 2019 at an envisaged cost of Rs.200 crore to be funded in project D/E ratio of 1:1.

Analytical Approach: Standalone

Applicable Criteria:

Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology - Manufacturing Companies
Financial Ratios - Non financial sector

About the company

Atul was originally promoted by 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 to Atul Ltd. in 1996. It has one of the biggest integrated chemical complexes in Asia with a well-diversified product portfolio of around 900 products and 450 formulations. It has manufacturing facilities located at Ankleshwar and Valsad in Gujarat & Tarapur in Maharashtra. It has marketing offices in USA, UK, Germany, UAE, China, Brazil, etc.

Brief Financials (Rs. crore)-Standalone	FY17 (A)	FY18 (A)
Total operating income	2722	3138
PBILDT	498	503
PAT	285	270
Overall gearing (times)	0.11	0.03
Interest coverage (times)	23.68	56.54

A: Audited

Based on published standalone results for Q1FY19, Atul reported total operating income (TOI) of Rs.901 crore (Q1FY18: Rs.654 crore) and profit after tax (PAT) of Rs.84 crore (Q1FY18: Rs.34 crore).

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History (Last three years): Please refer Annexure-II
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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About CARE Ratings:
CARE Ratings commenced operations in April 1993 and over nearly two decades; it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporate to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

Annexure - I: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	438.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	92.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	-	-	7-364 days	300.00	CARE A1+

Annexure - II: 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (16-Aug-16)	1)CARE AA+ (21-Oct-15)
2.	Fund-based - LT-Cash Credit	LT	438.00	CARE AA+; Stable	-	1)CARE AA+; Stable (06-Oct-17)	1)CARE AA+; Stable (29-Mar-17) 2)CARE AA+ (16-Aug-16)	1)CARE AA+ (21-Oct-15)
3.	Non-fund-based - ST-BG/LC	ST	92.00	CARE A1+	-	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (29-Mar-17) 2)CARE A1+ (16-Aug-16)	1)CARE A1+ (21-Oct-15)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	-	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (29-Mar-17) 2)CARE A1+ (16-Aug-16)	1)CARE A1+ (11-Dec-15) 2)CARE A1+ (21-Oct-15) 3)CARE A1+ (16-Jul-15)

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