Atul Limited

October 04, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long Term Bank Facilities	127.00	CARE AA+; Stable (Double A Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	403.00	CARE A1+ (A One Plus)	Reaffirmed
Total Facilities	**530.00 (Rupees Five Hundred Thirty 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, 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 be underpinned by growth in its scale of operations in FY19 (refers to the period April 1 to March 31) along with improvement in 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 increase its scale of operations while further expanding its profitability through greater focus on value-added products thereby largely insulating 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 and ensure continuous adherence to prevailing pollution control/environmental norms shall also be the key rating sensitivities.

Detailed description of the 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 FY19 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

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; the same has led to better profitability which has also shown greater degree of resilience compared to the scenario of around a decade back. During FY19, LSC and POC segments witnessed growth in sales by 25% and 26% respectively with 42% growth in crop protection division under LSC segment and

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

growth of 42%, 32% and 22% respectively in bulk chemicals, aromatics and polymers division under POC segment as compared to the corresponding previous year. PBILDT margin of the company increased from 15.86% during FY18 to 19.62% during FY19 on a consolidated basis. The PBILDT margin of Atul further increased to 24.05% during Q1FY20.

Comfortable leverage with strong debt coverage indicators
On a standalone basis, Atul had no debt as on March 31, 2019. Also, on a consolidated level, its leverage stood at a very comfortable level of 0.04 times as on March 31, 2019. Its debt coverage indicators also stood very strong marked by Interest coverage of 107.72 times & Total debt/GCA of 0.20 years during FY19. Its Total Debt/PBILDT, too, was very comfortable at 0.14 times during FY19.

Liquidity: Strong
Liquidity of Atul is marked by strong accruals against negligible term debt repayment obligations and liquid investments to the tune of Rs.261 crore as on March 31, 2019. With an overall gearing of 0.04 times as of March 31, 2019, 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 August 2019. 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 2.88 times as on March 31, 2019.

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. Also, chemical industry is 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 total operating income(TOI) thereby exposing it to foreign exchange rate fluctuations. However, it enjoys benefit of partial natural hedge with imports of around 30-35% 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 has taken up various projects for further debottlenecking and increasing the installed capacity of some of some of its existing product line to consolidate its market position further. The aggregate capex planned for the next three years ending FY22 on a standalone basis is significantly high; however, the same is expected to be funded entirely through internal accruals.
Further, Atul has entered in to a Joint Venture (JV) named Anaven LLP with Akzo Nobel to set up a manufacturing facility for the production of Monochloroacetic acid (MCA) at Atul's plant in Gujarat with a total capacity of 60,000 metric tonne per annum (MTPA). Initially it would operate at installed capacity of 32,000 MTPA which is expected to start commercial production from December 2019. A part of the JV's output is envisaged to be consumed by Atul. The second phase of the project under the JV is expected to be implemented in FY21 at an envisaged cost of Rs.100 crore to be funded by project D/E ratio of 1:1.

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 3***.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Factoring Linkages in Ratings
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 as 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)	FY18 (A)	FY19 (A)
Total operating income	3,317	4,068
PBILDT	526	798
PAT	281	436
Overall gearing (times)	0.04	0.04
Interest coverage (times)	41.30	107.72

A: Audited

As per published consolidated results, Atul reported total operating income of Rs.1,041 crore with a PAT of Rs.149 crore in Q1FY20 as against total operating income of Rs.913 crore with a PAT of Rs.83 crore in Q1FY19.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Annexure-1: 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	-	-	-	127.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	403.00	CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Term Loan	LT	-	-	-	-	-	1)Withdrawn (16-Aug-16)
2.	Fund-based - LT-Cash Credit	LT	127.00	CARE AA+; Stable	-	1)CARE AA+; Stable (27-Sep-18)	1)CARE AA+; Stable (06-Oct-17)	1)CARE AA+; Stable (29-Mar-17) 2)CARE AA+ (16-Aug-16)
3.	Non-fund-based - ST-BG/LC	ST	403.00	CARE A1+	-	1)CARE A1+ (27-Sep-18)	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (29-Mar-17) 2)CARE A1+ (16-Aug-16)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (16-Nov-18) 2)CARE A1+ (27-Sep-18)	1)CARE A1+ (06-Oct-17)	1)CARE A1+ (29-Mar-17) 2)CARE A1+ (16-Aug-16)

Annexure-3: List of entities getting consolidated in Atul

Sr. No.	Name of the Company	% stake held by Atul as on March 31, 2019
1	Aaranyak Urmi Ltd	100
2	Aasthan Dates Ltd	100
3	Amal Ltd	53
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 Ltda	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 Elkay Polymer Ltd	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 Middle East FZ-LLC	100
22	Atul Nivesh Ltd	100
23	Atul Rajasthan Date Palms Ltd	74
24	Atul (Retail) Brands Ltd	100
25	Atul Seeds Ltd	100
26	Atul USA Inc	100
27	Biyaban Agri Ltd	100
28	DPD Ltd	98
29	Jayati Infrastructure Ltd	100
30	Lapox Polymers Ltd	100
31	Osia Dairy Ltd	100
32	Osia Infrastructure Ltd	100
33	Raja Dates Ltd	100
34	Anaven LLP	50
35	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.*

Contact us

Media Contact
Mradul Mishra
Contact no. – +91-22-6837 4424
Email ID – mradul.mishra@careratings.com

Analyst Contact
Hardik Shah
Contact no. - +91-79-4026 5620
Email ID- hardik.shah@careratings.com

Relationship Contact
Deepak Prajapati
Contact no. - +91-79-4026 5656
Email ID- deepak.prajapati@careratings.com

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