Atul Limited

October 06, 2017

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 instruments/facilities 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 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 three years to research oriented niche segments and its established customer base. The ratings further continue to factor Atul's strong financial risk profile marked by low leverage, healthy profitability and strong debt coverage as well as liquidity indicators; albeit there has been moderation in the performance of its 'Life Science Chemicals' segment during FY17 (refers to the period from April 1 to March 31) and Q1FY18.

The above rating strengths are, however, partially tempered by its exposure to raw material price volatility (which are linked to international crude oil prices) and dependence on China for key intermediates, foreign exchange rate fluctuations and presence in the cyclical chemical industry along with susceptibility of its profitability to competition from China for some of its products.

Atul's ability to significantly increase its scale of operations 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, efficiently manage its foreign currency exposure and generate envisaged returns from its completed projects over the last three years while ensuring continuous adherence to prevailing pollution control/environmental norms shall 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: 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 69% during FY17 wherein polymers, aromatics and colours were the major contributors while that of LSC stood at 31% of the net sales wherein crop protection and aromatics were the major contributors. 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

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

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; albeit recent moderation in performance of LSC segment: 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 past years. During FY17, LSC and POC segments witnessed growth in sales by 8% and 10% respectively as compared to the corresponding previous year. Although PBIT margin of POC segment remained stable during FY17, the PBIT margin of LSC segment declined during FY17 and Q1FY18 mainly on the back of moderate performance of its crop protection sub-segment.

Low leverage along with strong debt coverage and liquidity indicators: Total Operating Income (TOI) of Atul witnessed growth of 9.57% on a year-on-year (y-o-y) basis during FY17. PBILDT margins continued to remain healthy at 18.29% during FY17. However, it moderated to 12.32% during Q1FY18 as compared to 19.18% during Q1FY17 on account of increase in the prices of key raw material and foreign exchange rate fluctuations on one hand with simultaneous pricing pressure on its finished goods on the other hand owing to competitive pressures and some disruption in domestic sales on account of implementation of GST. The overall gearing of Atul continued to remain low at 0.11 times as on March 31, 2017. Debt coverage indicators, too, continued to remain strong during FY17 and Q1FY18 on account of its low debt levels. Atul also had strong liquidity indicators marked by healthy current ratio, low working capital limit utilization and market value of quoted investments at Rs.419 crore as on March 31, 2017.

Key Rating Weaknesses

Exposure to foreign exchange rate fluctuations: Atul's exports constituted 53% of its total sales during FY17 thereby exposing it to foreign exchange rate fluctuations. However, it enjoys benefit of partial natural hedge with imports of around 27% 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 using a healthy mix of plain forwards, zero cost options and premium paid options. ECBs are being hedged fully for both interest rate risk and currency risk thereby mitigating the foreign exchange rate fluctuation risk to an extent.

Exposure to raw material price volatility and threat from 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 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. Atul has geographically diversified sales with good share of exports in its TOI wherein it primarily caters to US, Europe, etc. Hence, its sales are also dependent upon the global demand scenario for its products which may exhibit slowdown at times due to various macro-economic issues which a country may encounter.

Planned capex: Atul has 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 December 2018 at an envisaged cost of Rs.200 crore to be funded in project D/E ratio of 1:1. Besides, Atul has incurred capital expenditure of around Rs.704 crore during FY15-FY17; returns from which are not yet fully realised. Hence, Atul's ability to generate envisaged returns from the planned as well as completed capex shall be crucial from credit perspective.

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 920 products and 460 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)	FY16 (A)	FY17 (A)
Total operating income	2478	2722
PBILDT	466	498
PAT	274	285
Overall gearing (times)	0.19	0.11
Interest coverage (times)	18.04	23.68

Based on provisional results for Q1FY18, Atul reported total operating income (TOI) of Rs.654 crore (Q1FY17: Rs.640 crore) and profit after tax (PAT) of Rs.34 crore (Q1FY17: Rs.81 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.*

Analyst Contact
Name: Mr Maulesh Desai
Tel: 079-40265605
Mobile: +91-8511190079
Email: maulesh.desai@careratings.com

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Term Loan	LT	-	-	-	1)Withdrawn (16-Aug-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (25-Nov-14)
2.	Fund-based - LT-Cash Credit	LT	438.00	CARE AA+; Stable	-	1)CARE AA+; Stable (29-Mar-17) 2)CARE AA+ (16-Aug-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (25-Nov-14)
3.	Non-fund-based - ST-BG/LC	ST	92.00	CARE A1+	-	1)CARE A1+ (29-Mar-17) 2)CARE A1+ (16-Aug-16)	1)CARE A1+ (21-Oct-15)	1)CARE A1+ (25-Nov-14)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	-	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)	1)CARE A1+ (25-Nov-14)

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022

Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

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