Atul Ltd.

March 29, 2017

Ratings

Bank Facilities / Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long term Bank Facilities	438.00 (enhanced from 342.00)	**CARE AA+; Stable (Double A Plus; Outlook: Stable)**	**Reaffirmed**
Short term Bank Facilities	92.00 (enhanced from 88.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Bank Facilities	**530.00 (Rupees Five Hundred Thirty Crore Only)**		
Commercial Paper (CP)	300.00 (enhanced from 200.00)	**CARE A1+ (A One Plus)**	**Reaffirmed**
Total Instruments	**300.00 (Rupees Three Hundred Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings continue to derive strength from the wide experience of the promoters and competent management of Atul Ltd. (Atul), its established track record and strong position in the chemical industry with diversified product portfolio, its leadership position in some of the high-value products, strong R&D setup and established customer base. The ratings also factor sustained improvement in business and financial risk profile of Atul during FY16 (refers to the period from April 1 to March 31) and 9MFY17 aided by gradual shift in its product mix over last few years largely insulating the company's overall performance from sharp fluctuations despite changes in external factors; albeit there was moderation in the performance of its 'colours' division during FY16.

The long-term rating is, however, constrained by its exposure to raw material price volatility (which are linked to international crude oil prices), foreign exchange rate fluctuations and its presence in the cyclical chemical industry which is also susceptible to increasingly stringent pollution control environment.

Atul's ability to significantly increase its scale of operations through greater foray in to value-added products, largely insulate its profitability against raw material price volatility and foreign exchange rate movements as well as in a scenario of adverse business environment, generate envisaged returns from planned projects after its timely stabilization and ensure continuous adherence to prevailing pollution control norms shall be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Wide experience of the promoters 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. Life Science Chemicals (LSC) and Performance and other Chemicals (POC). Products used in Agriculture and Pharmaceutical industries are part of LSC segment. POC segment includes all the other products like dyes, pigments, epoxy resins, hardeners, rubber adhesives, polyurethane adhesives, cresols, bulk-intermediates, sulphones, etc. Such wide range of products finds application in multiple industries. Atul enjoys fairly good market share in many of these product segments.

Shift in business mix from low-margin products to value-added speciality chemicals

Atul was one of the largest dyestuff manufacturing companies in India and over the years through its strong R&D initiatives, Joint Venture (JV) with multinational companies and acquisitions, Atul has expanded its product portfolio significantly in the areas of aromatics, crop protection, pharma & intermediates and polymers which are speciality products providing better profitability. During FY16, the performance of Atul's LSC segment exhibited significant improvement primarily on account of increase in sale by around 23% in the crop protection division. However, there was

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

decline in the net sale of the POC segment due to decline in sales realizations as a result of reduction in crude oil prices. Further, the profitability margins have improved across all the divisions, except colors during FY16. Apart from shift in product mix, Atul has taken up steps to reduce other costs by way of minor debottlenecking and environmental compliance projects.

Improved profitability along with comfortable leverage and liquidity

During FY16, the total operating income of Atul declined by around 3% due to lower sales realization primarily on account of decline in crude oil prices. However, there has been improvement in the profitability margins of all the division, except colors division, which has led to better PBILDT and PAT margins during FY16. This improvement is on account of optimized manufacturing processes post de-bottlenecking in various divisions and significant reduction in power and fuel cost during FY16. Further, overall gearing of Atul remained comfortable at 0.25 times as on March 31, 2016.

Atul's liquidity also remained comfortable as exhibited from a relatively stable working capital cycle, average utilisation of working capital limits (including commercial paper) at 75.81 % during trailing 12 months ended January 2017 and presence of significant amount of unencumbered liquid investments as on March 31, 2016.

Key Rating Weaknesses

Exposure to foreign exchange rate fluctuations

Atul is involved in export of its products as well as import of its raw materials. It has foreign currency borrowing in the form of ECBs and Buyer's Credit. During FY16, as against total export of Rs.1179 crore, import of raw material & packing materials comprised of Rs.348 crore providing a partial natural hedge. Atul has a forex risk management policy to hedge the net exports. Looking at the fluctuations in exchange rates, hedging decisions are taken in accordance with the said policy 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 which was earlier partly hedged.

Exposure to raw material price volatility & stricter pollution control norms

Most of the raw materials of Atul are derivatives of crude; hence the prices of its raw materials vary with the fluctuation in international crude oil prices. Atul is largely able to pass on the raw material price fluctuation, however with some time lag. Also, increasing Chinese exports in few of the products also poses risk to Atul. Also, strict adherence to pollution control norms is foremost for the companies operating in the chemical industry. However, Atul has undertaken 5 optimization and de-bottlenecking projects during FY16 to further enhance the performance in the area of environment protection and reduction in raw material cost. Also, chemical industry is susceptible to cyclicality in demand which is linked to various domestic and global factors.

Planned projects in various divisions

Atul has plans to take up various projects for debottlenecking, increasing its installed capacity in each business division which are currently under examination stage.

Atul has also signed a Letter of Intent to explore the feasibility of setting up a manufacturing Joint Venture (JV) with AkzoNobel for the production of Monochloroacetic acid (MCA) at Atul's plant in Gujarat. The proposed facility is expected to serve the domestic MCA market as well as meet the captive MCA requirements of Atul.

Analytical approach: Standalone

Applicable Criteria
CARE's methodology for manufacturing companies
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
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 divided into two segments viz. Life Science Chemicals (LSC) and Performance & Other Chemicals (POC) catering to the requirement of diversified industries like textile, paints, agriculture, fragrance & flavours, tyre, paper, pharmaceutical, aerospace, construction, etc. 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.

During FY16 (refers to the period April 1 to March 31), Atul reported a total operating income of Rs.2478 crore (FY15: Rs.2562 crore) with a PAT of Rs.268 crore (FY15: Rs.217 crore). As per the un-audited results for 9MFY17, Atul reported a total operating income of Rs.2090 crore with a PAT of Rs.221 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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: Hardik Shah
Tel: 079 – 40265620
Mobile # 9898802101
Email: hardik.shah@careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over 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 corporates 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-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	NA	NA	NA	438.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	NA	NA	NA	92.00	CARE A1+
Commercial Paper-Commercial Paper (Standalone)	NA	NA	NA	300.00	CARE A1+

NA: Not Applicable

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Fund-based - LT-Term Loan	LT	-	-	1)Withdrawn (16-Aug-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (25-Nov-14)	1)CARE AA (16-Jan-14) 2)CARE AA- (10-Oct-13)
2.	Fund-based - LT-Cash Credit	LT	438.00	CARE AA+; Stable	1)CARE AA+ (16-Aug-16)	1)CARE AA+ (21-Oct-15)	1)CARE AA+ (25-Nov-14)	1)CARE AA (16-Jan-14) 2)CARE AA- (10-Oct-13)
3.	Non-fund-based - ST-BG/LC	ST	92.00	CARE A1+	1)CARE A1+ (16-Aug-16)	1)CARE A1+ (21-Oct-15)	1)CARE A1+ (25-Nov-14)	1)CARE A1+ (16-Jan-14) 2)CARE A1+ (10-Oct-13)
4.	Commercial Paper-Commercial Paper (Standalone)	ST	300.00	CARE A1+	1)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)	1)CARE A1+ (16-Jan-14) 2)CARE A1+ (10-Oct-13)

CONTACT

Head Office Mumbai

Mr. Amod Khanorkar
Mobile: + 91 98190 84000
E-mail: amod.khanorkar@careratings.com

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

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

AHMEDABAD
Mr. Mehul Pandya
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-98242 56265
Tel: +91-79-4026 5656
E-mail: mehul.pandya@careratings.com

BENGALURU
Mr. Deepak Prajapati
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91-9099028864
Tel: +91-80-4115 0445, 4165 4529
E-mail: deepak.prajapati@careratings.com

CHANDIGARH
Mr. Sajan Goyal
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 99888 05650
Tel: +91-172-5171 100 / 09
Email: sajan.goyal@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

CIN - L67190MH1993PLC071691