Atul Limited

August 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	127.00	CARE AA+; Stable	Reaffirmed
Short-term bank facilities	350.50	CARE A1+	Reaffirmed

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Atul Limited (Atul) continue to derive strength from its established track record and strong market position in the chemical industry with a diversified product portfolio. The ratings also derive strength from the wide end-user industries along with diversified clientele, leadership position in some of its high-value specialty products as well as strong research and development (R&D) setup. The ratings also take cognisance of vast experience of its promoters along-with its competent management, its healthy 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 its dependence for key intermediates. The rating strengths of Atul are also moderated due to the competition from China for some of its finished products along with presence in a competitive and cyclical chemical industry, which is also exposed to stringent environmental compliance and is susceptible to accidental fire.

Rating sensitivities: Factors likely to lead to rating actions

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 a 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 /PBILDT beyond 1x on a sustained basis.
- Any change in prevailing pollution control/ environmental norms and/or regulatory ban on production and sales of certain products thereby significantly impacting its business and profitability.

Analytical approach: Consolidated

CARE Ratings Limited (CARE Ratings) has adopted a 'Consolidated' approach for Atul on account of its strong operational and financial linkages with its subsidiaries and their common management. The list of entities getting consolidated has been placed at **Annexure-6**.

Outlook: Stable

The 'Stable' outlook on the rating reflects that the rated entity shall continue to remain a dominant player in the chemical business with integrated operations. Furthermore, CARE Ratings expects the entity to maintain its comfortable financial risk profile amidst healthy cash accruals with absence of any large debt-funded capex plans in the near term.

Detailed description of the key rating drivers

Key strengths

Diversified product portfolio having wide user industry application along with geographically diversified clientele

Atul's operations in the chemical sector are classified into two broad segments, viz., Performance and other Chemicals (POC) and Life Science Chemicals (LSC), catering to the requirement of diversified industries, including textile, paints and coatings, adhesives, dyestuff, agriculture, fragrance and flavours, cosmetic, personal care, tyre, paper, plastic, pharmaceutical, aerospace, composites,

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

construction, glass, etc. Out of the two segments, contribution of POC in net sales stood at 66% during FY23 (refers to the period April 1 to March 31), wherein polymers, aromatics and colours are the major contributors, while that of LSC stood at 34% of the net sales, wherein crop protection segment is the major contributor. Over the years, Atul has emerged as a prominent player in various products manufactured by it (including Para-Cresol, Para Anisic Aldehyde, Resorcinol). It also has a strong clientele including some global chemical majors. Furthermore, its well-diversified product range helps Atul in mostly offsetting the adverse performance of few product lines in some years through better performance of the remaining products in those years.
Furthermore, Atul benefits from its geographically diversified clientele across Asia, Europe, North America, South America and Africa, wherein it serves about 4,000 customers across 83 countries through its various marketing subsidiaries. Atul's management has been making efforts to increase its retail sales where profitability margins are comparatively better; however, the contribution of retail sales to its net sales stood low at 9% in FY23.

Presence in research-oriented specialty chemicals leading to healthy profitability
Earlier, Atul was one of the largest dyestuff manufacturing companies in India.; however, through its strong R&D initiatives, joint ventures (JV) with multinational companies and acquisitions, Atul has expanded its product portfolio significantly over the 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 situation around a decade ago. During FY23, the LSC segment witnessed improvement in sales by 34%, while the POC segment witnessed improvement in the sales by 5% on y-o-y basis leading to improvement in consolidated total operating income (TOI) of the company by 7% on y-o-y basis to ₹5,467 crore during FY23, mainly due to higher realisation driven by elevated prices of its crude-linked raw materials.
The company's profitability remained significantly higher in FY20 and FY21 owing to benefit of favourable input prices on the back of lower crude prices. The PBILDT margin of Atul moderated to 15.49% during FY23 vis-à-vis 18.16% in FY22 primarily owing to higher coal and freight costs, subdued demand from some of its key consuming industries/ key export markets, delay in implementation of some of its projects and faster dip in finished goods prices as compared to raw material prices. Atul's profitability has marginally improved to 16.17% during Q1FY24, and CARE Ratings expects its operating profitability to remain in the range of around 16%-17% in the near term.

Comfortable leverage with strong debt coverage indicators
On a standalone basis, Atul only had cash credit limits on its books as on March 31, 2023. Furthermore, on consolidated basis, the company's overall gearing has remained below 0.10x over past six years ended FY23 and the same is expected to continue over the medium term. Its debt coverage indicators also stood very strong marked by interest coverage of 107.19x and total debt/PBILDT of 0.18x during FY23. On the back of envisaged healthy generation of operating cash flows and funding of its planned capex through its available strong liquidity, CARE Ratings expects Atul's overall gearing and total debt/PBILDT to remain very comfortable at below 0.10x and 0.50x in the near to medium term.

Vast experience of the promoters in chemical industry along-with competent management
Atul is presently headed by Sunil Lalbhai, the third-generation entrepreneur, 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 and finance, taxation, law, etc. Out of the total 11 directors on Atul's Board, there are seven independent directors. Atul's Board committees, such as Audit, Risk Management, Remuneration, Corporate Social Responsibility (CSR), etc., are chaired by independent directors. As a part of its CSR initiative, Atul spent ₹15.83 crore towards 38 social welfare programmes during FY23 (refers to the period April 1 to March 31). Furthermore, Atul is an R&D-focused chemical company, and currently employs more than 1,400 post-graduates and around 90 PhDs.

Liquidity: Strong
The liquidity profile of Atul is strong, marked by healthy cash accruals against negligible term debt repayment obligations. With low gearing level, the company has sufficient headroom to raise additional debt for its capex, however, it is expected to fund its entire capex requirement from its healthy internal accruals and available liquidity. The utilisation of its fund-based working capital limits remained less than 1% over the trailing 12 months ended July 2023. Accordingly, its unutilised bank lines are more than adequate to meet its incremental working capital needs over the next one year. The company has significant liquidity of ₹352 crore in the form of cash, investments in liquid and arbitrage mutual funds; along with ₹536 crore in the form of investments in quoted equity shares (mainly in Pfizer Limited) as on March 31, 2023. Furthermore, the company has been regularly generating healthy cash flow from operations. Its current ratio was also very strong at 2.45x as on March 31, 2023, and the operating cycle stood at 84 days during FY23.

Key weaknesses

Exposure to volatility in crude oil-based raw material prices along-with presence in a competitive and cyclical chemical industry

As majority of the raw materials of Atul are derivatives of crude oil, their prices vary with the fluctuation in international crude oil prices. For a few products, where Atul has a large market share, the increase in raw material price can be largely passed on to 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. Furthermore, Atul is also dependent on China for certain key intermediates required by its crop protection and dye-stuff sub-segments. During FY23, around 33% of its total raw material requirement, i.e., around ₹918 crore was imported and around 20%-25% of the same was procured from China. During FY22 and FY23, due to rise in crude prices and higher freight costs among other factors, the operating profitability of Atul was impacted marked by reduction in its PBILDT margin to 18.16% during FY22 and further to 15.49% during FY23. Also, chemical industry is highly competitive and 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 TOI, thereby exposing it to foreign exchange rate fluctuations. However, it enjoys benefit of partial natural hedge with imports of around 33% of its raw material requirement. Furthermore, net exports are hedged using forward contracts and foreign currency option contracts. 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. As on March 31, 2023, its net unhedged foreign exchange exposure stood at ₹285.84 crore.

Large-size capex impacting its return indicators

Atul, on a consolidated basis, incurred an aggregate capex of nearly ₹1,500 crore over the last two years ended FY23 and has envisaged to incur capex of around ₹550 crore during FY24 towards completion of its various projects on hand. However, returns from these projects have been delayed impacting its return on capital employed (ROCE) which has steeply declined from 25.70% in FY21 to 19.81% in FY22 and further to 12.62% in FY23. CARE Ratings expects Atul's return indicators to remain in the range of 13% to 14% in the near to medium term on the back of slowdown in the chemical industry.

Compliance with stringent pollution control and fire safety norms, and susceptibility to regulatory risks

Being present in the chemical industry, the operations of Atul are subject to various environment-related regulatory compliances in a stringent manner. Also, pollution-related norms are evolving on a daily basis in India. Accordingly, continuous adherence to defined pollution control norms are mandatory for seamless operations. Atul is regularly incurring large-size capex for compliance with defined pollution control norms and has not encountered any adverse observations/closure notice from pollution control departments for a long period of time. Also, over the last 15 years, Atul had not encountered any incidence of fire at its plant except the accidental fire reported in April 2022 in one of its pharma intermediate plants, while it was under maintenance. However, there were no human casualties or injuries in this accident and the fire was brought under control in around three hours' time. Also, the safety mechanism in place was able to isolate this plant from other plants of the company at that location. In May 2020, through the draft gazette notification issued by 'The Ministry of Agriculture and Farmers Welfare', the Government of India had proposed to place 27 insecticides into banned category post the period of 90 days. After almost three years from its original proposal, in February 2023, Government of India by way of a gazette notification banned only 3 out of total 27 pesticides which were there in the original list, namely, dicofol, methomyl and dinocap. However, there is no clarity as far as balance 24 pesticides are concerned which were also originally proposed to be banned in May 2020. From the list of 27 insecticides, Atul is engaged in the manufacturing and sales of 2,4-D herbicide, which comprises around 50% of the total sales of its crop protection business segment, i.e., around ₹570 crore. However, sales of 2,4-D herbicide constitute only around 10% of Atul's aggregate sales; and moreover, around 70% of 2,4-D herbicide sales of Atul are in the form of exports, which is expected to be allowed even if there is ban on its sales in the domestic market. Also, Atul has submitted, within stipulated timeline, a strong defence against the grounds on which the product is proposed to be banned. However, any adverse ruling on this count could impact the performance of Atul to an extent; albeit on account of its widely diversified product portfolio, Atul is likely to successfully withstand the impact of an adverse outcome.

Environment, social and governance (ESG) risk assessment

Risk factors	Compliance and action by the company
Environmental	The company has planted around 6.90 lakh saplings in last 13 years towards development of green belt and has also provided for 100 kLD sewage treatment plant for amenity blocks at Atul site. ZLD has been fully implemented at company's Ankleshwar and Tarapur manufacturing sites. Further projects are under commissioning to make two out of four areas at Atul site at Valsad as ZLD facilities. The company has in-house facilities to recycle its waste and at present it is recycling 5.50% of its waste. Atul has been awarded the best 'Sustainability Impact Initiatives Award' for a decade of sustainable zero liquid discharge (ZLD) operations at its Ankleshwar site, which is the only zero liquid discharge *para* Cresol plant in the world, and the 'Sustainability Leader of the Year Award' for notable contributions to sustainability initiatives in Atul. On April 15, 2023, Atul was awarded for its outstanding efforts in Corporate Environment Responsibility at the Environment Conclave organised by the Southern Gujarat Chamber of Commerce and Industry in association with the Gujarat Pollution Control Board.
Social	There was 0.05 per one million-person hours work lost time injury frequency rate. There were no complaints made by employees on working conditions and health and safety during FY23.
Governance	Around 64% of the Atul's board comprises independent directors. The company has a dedicated investor grievance redressal mechanism and healthy disclosures.

Applicable criteria

Policy on default recognition
Consolidation
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Manufacturing Companies

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Commodities	Chemicals	Chemicals & Petrochemicals	Specialty Chemicals

Atul was originally promoted by Padma Bhushan late Kasturbhai Lalbhai in 1947 as Atul Products Limited and was later renamed as Atul Limited 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 and 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 (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	June 30, 2023 (UA)
Total operating income	5,092.18	5,467.17	1,190.22
PBILDT	924.60	846.82	192.42
PAT	604.74	506.63	102.05
Overall gearing (times)	0.05	0.03	NA
Interest coverage (times)	100.83	107.19	94.79

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for the last three years: Please refer to Annexure-2

Covenants of the rated instruments/facilities: Please refer Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of facilities

Name of the Instrument	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	127.00	CARE AA+; Stable
Non-fund-based - ST-BG/LC	-	-	-	350.50	CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Fund-based - LT-Cash Credit	LT	127.00	CARE AA+; Stable	-	1)CARE AA+; Stable (03-Aug-22)	1)CARE AA+; Stable (03-Aug-21)	1)CARE AA+; Stable (31-Aug-20) 2)CARE AA+; Stable (24-Aug-20)
2	Non-fund-based - ST-BG/LC	ST	350.50	CARE A1+	-	1)CARE A1+ (03-Aug-22)	1)CARE A1+ (03-Aug-21)	1)CARE A1+ (31-Aug-20) 2)CARE A1+ (24-Aug-20)
3	Commercial Paper-Commercial Paper (Standalone)	ST	-	-	-	1)Withdrawn (03-Aug-22)	1)CARE A1+ (25-Nov-21)	-

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instruments / facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. This classification is available at www.careedge.in. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Annexure 6: List of entities getting consolidated in Atul Limited

Sr. No.	Name of companies/ Entities	% of holding (March 31, 2023)
1	Aaranyak Urmi Ltd	100
2	Aasthan Dates Ltd	100
3	Amal Ltd #	49.86
4	Amal Speciality Chemicals Limited	49.86
5	Anchor Adhesives Private Ltd	100
6	Atul Aarogya Ltd	100
7	Atul Ayurveda Ltd	100
8	Atul Bioscience Ltd	100
9	Atul Biospace Ltd	100
10	Atul Brasil Qumicos Ltda	100
11	Atul China Ltd	100
12	Atul Clean Energy Ltd	100
13	Atul Crop Care Ltd	100
14	Atul Consumer Products Ltd	100
15	Atul Deutschland GmbH	100
16	Atul Entertainment Ltd	100
17	Atul Europe Ltd	100
18	Atul Finserv Ltd	100
19	Atul Fin Resource Ltd	100
20	Atul Healthcare Ltd	100
21	Atul Hospitality Ltd	100
22	Atul Infotech Private Ltd	100
23	Atul Ireland Ltd	100
24	Atul Lifescience Ltd	100
25	Atul Middle East FZ-LLC	100
26	Atul Natural Dyes Limited	100
27	Atul Natural Foods Limited	100
28	Atul Nivesh Ltd	100
29	Atul Paints Ltd	100
30	Atul Polymers Products Ltd	100
31	Atul Products Ltd	100
32	Atul Rajasthan Date Palms Ltd	73.98
33	Atul Renewable Energy Ltd	100
34	Atul (Retail) Brands Ltd	100
35	Atul Seeds Ltd	100
36	Atul USA Inc	100
37	Biyaban Agri Ltd	100
38	DPD Ltd	98
39	Jayati Infrastructure Ltd	100
40	Osia Dairy Ltd	100
41	Osia Infrastructure Ltd	100
42	Raja Dates Ltd	100
43	Sehat Foods Ltd	100
44	Valsad Institute of Medical Sciences Ltd	50

Sr. No.	Name of companies/ Entities	% of holding (March 31, 2023)
45	Anaven LLP	50
46	Rudolf Atul Chemicals Ltd	50

Amal Ltd. is considered as a subsidiary despite Atul's holding of 49.85% mainly because of full control over the operations of Amal Ltd.

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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