

Atul Ltd

No. of shares (m)	29.51
Mkt cap (Rs crs/\$m)	27671/3497.5
Current price (Rs/\$)	9376/118.5
Price target (Rs/\$)	11961/151.2
52 W H/L (Rs.)	10975/7757
Book Value (Rs/\$)	1503/19.0
Beta	0.7
Daily volume NSE (avg. monthly)	48630
P/BV (FY23e/24e)	5.6/4.7
EV/EBITDA (FY23e/24e)	20.5/17.0
P/E (FY23e/24e)	34.1/28.2
EPS growth (FY22/23e/24e)	-7.6/34.7/20.7
OPM (FY22/23e/24e)	17.9/19.7/20.5
ROE (FY22/23e/24e)	15.0/17.6/18.2
ROCE(FY22/23e/24e)	14.4/16.9/17.8
D/E ratio (FY22/23e/24e)	0.0/0.0/0.0
BSE Code	500027
NSE Code	ATUL
Bloomberg	ATLP IN
Reuters	ATLP.NS

Shareholding pattern

	%
Promoters	45.1
MFs / Banks / FIs	23.4
FPIs	8.8
Govt. Holding	0.0
Public & Others	22.8
Total	100.0

As on June 30, 2022

Recommendation

BUY

Analyst

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(Figures in Rs crs)

Income from operations	4093.06
Other Income	78.04
EBITDA (other income included)	980.05
Adjusted PAT	666.24
EPS(Rs)	224.61
EPS growth (%)	53.8

Company Brief

Atul Ltd manufactures value added chemicals for diverse industries - agriculture, construction, textiles, pharmaceuticals and automobiles.

Quarterly Highlights

- Bolstered by some 16% volumes growth, Atul published 36.7% growth in revenues in Q1FY23 compared to the same period last fiscal, though with little contribution from subsidiaries. Both the LSC and POC segments chipped in well as they growth of 37.5% and 37.6% respectively. The company attributed much of the sturdy growth in revenues of both segments to good demand and higher price realization.
- Despite higher raw material, energy and freight costs, both the segments reported sharp jump in EBIT margins last quarter when compared with the one reported in March quarter. LSC yanked margins of some 16.4% Vs 14.1% in Q4, while POC squirmed with reading of 16.9% (adding back of fire loss of Rs 35.08 crs) Vs 12.9% in Q4, where high energy costs and freight seems to have played spoilsport.
- Adding back exceptional loss of Rs 35.08 crs on account of assets destroyed by fire and whose claim is under process with the insurance company, PBT advanced by 15.7% to Rs 255.11 crs as against Rs 220.41 crs in Q1 of previous fiscal., while the PAT (adjusted for exceptional item) seems to have grown a shade under 15%. Exchange rate gains of Rs 26.11 crs (Rs 5.58 crs in Q1FY22) explain much of the rise in other income to Rs 35.94 crs from Rs 29.62 crs in the same quarter of previous fiscal.
- The stock currently trades at 34.1x FY23e EPS of Rs 275.20 and 28.2x FY24e EPS of Rs 332.26. Elevated revenue share of exports coupled with phased commencement of projects in pipeline would do little to preclude buoyancy in earnings (projected CAGR of 27% over next two years). Executing global supply contracts while building cost efficiencies holds key for Atul's market share gains in exports. Vagaries of monsoons and crude oil prices can do little to reduce uncertainties related to demand and costs. Balancing odds, we advising buy the stock with revised target of Rs 11961 (previous target: Rs 11877) based on 36x FY24e earnings.

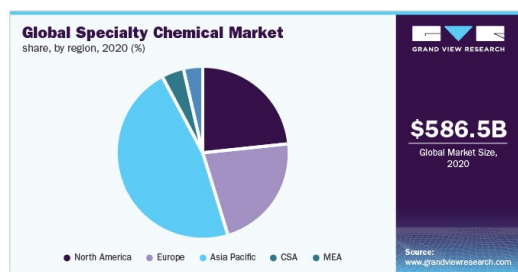
	FY20	FY21	FY22	FY23e	FY24e
Income from operations	4093.06	3731.47	5080.89	6119.19	7185.33
Other Income	78.04	102.98	76.00	85.23	79.19
EBITDA (other income included)	980.05	1020.10	987.44	1255.35	1554.23
Adjusted PAT	666.24	655.12	604.68	812.22	980.62
EPS(Rs)	224.61	221.17	204.37	275.20	332.26
EPS growth (%)	53.8	-1.5	-7.6	34.7	20.7

Outlook & Recommendation

Global Specialty Chemicals Update

Crisil, a rating agency, estimates that India's share of global specialty chemicals industry will double in five years to 6% by 2026 from 3-4% in FY21. Much of this growth, the agency contends, would be powered by demand recovery in domestic end-user segments and strong tailwinds in exports due a shift in global supply chain driven by the China+1 policy of vendors. To meet increased demand for products, Indian players would ramp up their capacity, a sizeable sum of this capex will be channelized in backward integration, import substitution, and to meet increased demand for exports.

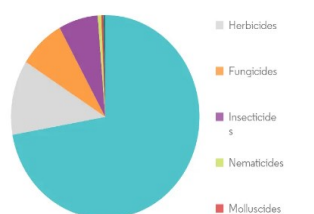
According to Fortune Business Insights, the global specialty chemicals industry is projected to grow by a CAGR of 4.7% during 2021-2028. This outcome would fructify on the backdrop of slump in market growth induced by Covid 19 pandemic outbreak. Most of the chemical companies during this period saw sharp fall in revenues not least due to restrictions in transportation and travel activities. The report contends that mounting concerns over food security would benefit the global agrochemicals segment on account of skyrocketing demand for specialty chemicals in the agriculture segment to boost farm yield.



Source: Grandview Research

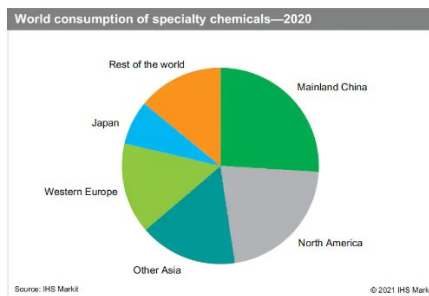
The report further states that concerns over food security in many parts of the world, driven by increasing population and depleting resources, may cause global food shortage. Much of the growth in global specialty industry would be driven by robust Chinese manufacturing power, which would take a leg up from abundant availability of raw materials in the country and the existence of cheap labor. In forthcoming years, North America is well poised to establish a commanding hold on this market not least due to it being on the largest consumers of chemicals such as biocides, synthetic lubricants, and corrosion inhibitors.

Agrochemicals Market, Revenue (%), by Application, Global, 2020



Source: Mordor Intelligence

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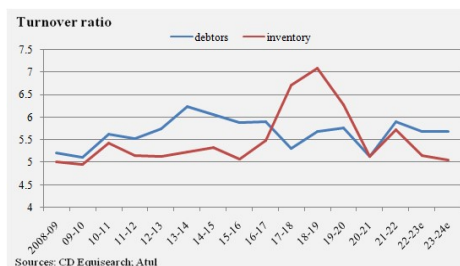
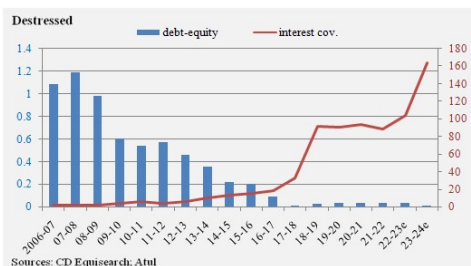
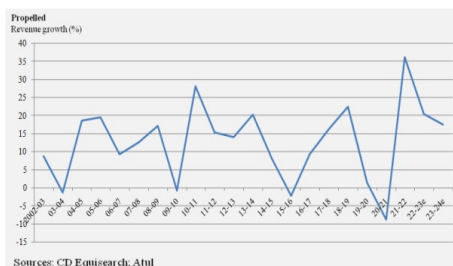


Source: HIS Markit

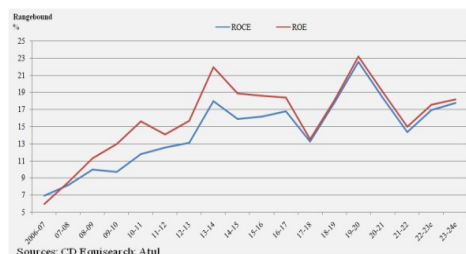
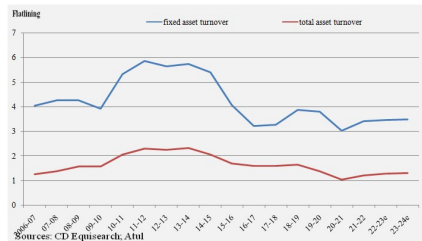
Financials & Valuation

Much of the increased velocity in sales over the next few years would fructify from both higher utilization of existing fixed assets and planned investments in subsidiaries such as Atul Products and DPD. Sorting out production issues at Anaven - which did revenues of some Rs 160 crs last fiscal - would help too. By some estimate, investments of shade under Rs 2000 crs is being undertaken (including Rs 374 crs incurred in FY22) which has the sales potential of Rs 2300 crs. Some of these projects would set up capacities for new products, some would be guided to backward integration projects and the remaining would take care of existing products capacity enhancement.

Specifically, epoxy resins capacity would be enhanced with in a period of some one and a half years. With uptick in textile business, Atul plans to widen the product portfolio of textile chemicals through Rudolf Atul while expanding capacity of Vat formulations. Though the company would roll out new products but increased demand for its existing products holds key for new products add up 5-10% to annual sales. Higher revenues from Ambernath site of Atul Biosciences is expected too.



Atul's Increased competitive advantage in para Cresol and para Anisic coupled with entrenched focus on backward integration - for instance, MCA for 2,4 -D acid and enhanced capex on backward integration projects - would doubtlessly help in boosting efficiencies. As operational issues have been sorted out, Anaven would profit from its best - in class infrastructure and efficient production process (uses hydrogen).



The stock currently trades at 34.1x FY23e EPS of Rs 275.20 and 28.2x FY24e EPS of Rs 332.26. Resuscitation in margins (OPM for FY23 estimated at 19.7% Vs 17.9% in the previous fiscal - coupled with increased sales velocity - partly due to enhanced volumes - would precipitate over 27% annual growth in earnings over the next two years. No small focus on managing raw material costs - coal, utilities, benzene, toluene to name a few - hold key for sustaining vivacity in sales. Yet turbulence in crude oil markets and cyclicity in crop protection and colors business could undermine progress. Weighing odds, we reckon that the stock merits a buy recommendation with revised target of Rs 11961 (previous target: Rs 11877) based on 36x FY24e earnings. For more info, refer to our July 21 report.

Cross Sectional Analysis

Company	Equity (Rs crs)	CMP (Rs crs)	Mcap (Rs crs)	Inc. from ops. (Rs crs)	Profit (Rs crs)	OPM (%)	NPM (%)	Int. cov.	ROE (%)	Mcap / IO	P/BV	P/E
Aarti Inds.	181	814	29511	6369	764	20.4	12.0	8.8	16.4	4.6	5.0	38.6
Atul Ltd	30	9376	27671	5478	629	17.2	11.4	97.4	14.9	5.1	6.2	44.0
Deepak Nitrite	27	2024	27609	7334	999	20.6	13.6	40.5	33.0	3.8	7.9	27.6
SudarshanChem	14	485	3360	2281	111	11.3	4.9	7.0	14.7	1.5	4.2	30.3

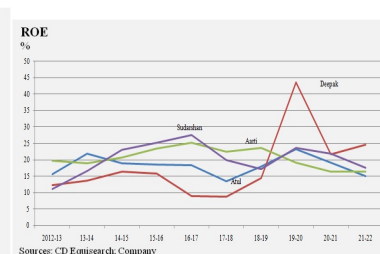
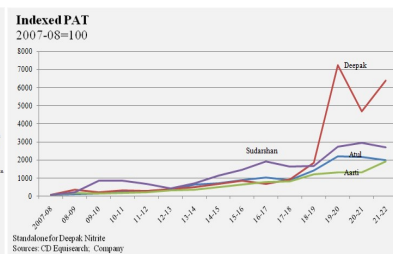
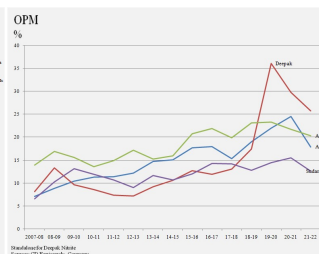
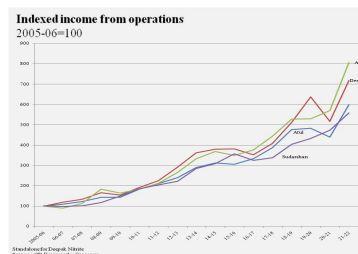
;calculations on ttm basis

ROE of IC adjusted for revaluation reserves; book value adjusted for goodwill & revaluation reserves wherever applicable;

Backed by robust volumes and healthy realizations - partly due to the ability of the company to pass on higher raw material prices - Aarti Industries reported 45.25 growth in net revenues in Q4, though revenues were impacted by shortage of nitric acid. Expansions related to third long term contract, NCB and pharma USFDA are expected to commence in the current fiscal. EBIT performance last fiscal was boosted by its value added portfolio coupled with benefits of operating leverage arising from higher volumes. Its growth strategy on courting outsourcing alliances, setting up universal multipurpose plants, introducing chloro toluene value chain and expanding new range of pharma APIs and intermediates.

Partly impacted by fire around warehouse of one of its manufacturing sites located at Nandesari Gujarat, Deepak Nitrite reported 34.8% growth in revenues to Rs 2057.99 as against Rs 1526.22 crs in the same period a year ago. Presumably due to higher material prices and discernible jump in power & fuel expenses (up nearly 50%), operating profits plunged by a distressing 21.2% to Rs 355.98 crs. Post tax earnings followed suit to display over 22% drop. Both advanced intermediates and phenolics business reported shrinkage in margins with former showing a nerve wracking 750 bps drop in margins sequentially while the steady phenolics business chipped in EBIT margin of 14.1% Vs 15.6% in Q4 vs 28.8% in Q1 of last fiscal.

Presumably stoked by raw material inflation, Sudarshan Chemicals posted 71.9% drop in pre-tax earnings last quarter while net profit swooned by 73%. This was on backdrop of a 16.9% growth in revenues to Rs 554.15 crs as against Rs 473.89 crs in the same period a year ago. Its pigment business bore the brunt of the fall for its EBIT nosedived 58% to Rs 19.28 crs when compared with Rs 45.84 crs in the same quarter a year ago, while its EBIT margins fell sharply to 3.7% from 10.1% in Q1 a year ago Vs 9.6% in the fourth quarter of previous fiscal. Recently, it issued unsecured non-convertible debentures of Rs 99 crs at 8.45% for a period of three years.



Financials

Quarterly Results

Figures in Rs crs

	Q1FY23	Q1FY22	% chg.	FY22	FY21	% chg.
Income from operations (net)	1476.85	1080.20	36.7	5080.89	3731.47	36.2
Other Income	35.94	29.62	21.3	76.00	102.98	-26.2
Total Income	1512.79	1109.82	36.3	5156.89	3834.45	34.5
Total Expenditure	1243.90	844.09	47.4	4169.45	2814.35	48.1
PBIDT (other income included)	268.89	265.73	1.2	987.44	1020.10	-3.2
Interest	1.57	2.06	-23.8	9.17	9.35	-1.9
Depreciation	47.29	43.26	9.3	176.69	136.32	29.6
PBT	220.03	220.41	-0.2	801.58	874.43	-8.3
Tax	57.69	57.20	0.9	205.00	221.66	-7.5
PAT	162.34	163.21	-0.5	596.58	652.77	-8.6
Profit/loss of associate & JV	1.13	1.94	-41.8	8.16	7.25	12.6
MI	-1.05	-0.79	32.9	0.48	4.26	-88.7
Net profit after MI & JV	164.52	165.94	-0.9	604.26	655.76	-7.9
Extraordinary Item	-25.88	-	-	-0.42	0.64	-164.9
Adjusted Net Profit	190.40	165.94	0.1	604.68	655.12	-7.7
EPS (F.V. 10)	64.52	56.09	15.0	204.37	221.17	-7.6

Segment Results

Figures in Rs crs

	Q1FY23	Q1FY22	% chg.	FY22	FY21	% chg.
Segment Revenue						
Life Science Chemicals	484.72	352.49	37.5	1465.10	1216.37	20.4
Performance & Other Chemicals	1056.96	753.51	40.3	3759.18	2621.88	43.4
Others	11.26	14.70	-23.4	69.98	48.48	44.3
Sub Total	1552.94	1120.70	38.6	5294.26	3886.73	36.2
Inter - Segment Revenue	76.09	40.50	87.9	213.37	155.26	37.4
Income from ops. (gross)	1476.85	1080.20	36.7	5080.89	3731.47	36.2
Segment EBIT						
Life Science Chemicals	79.54	49.29	61.4	178.88	219.57	-18.5
Performance & Other Chemicals	130.23	156.33	-16.7	575.89	594.16	-3.1
Others	-0.03	3.52	-100.9	24.43	11.30	116.2
Sub Total	209.74	209.14	0.3	779.20	825.03	-5.6
Interest	1.57	2.06	-23.8	9.17	9.35	-1.9
Other Unallocable Exp. (net of income)	-11.86	-13.33	-11.0	-31.55	-58.75	-46.3
PBT	220.03	220.41	-0.2	801.58	874.43	-8.3

Consolidated Income Statement

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
Income from operations	4093.06	3731.47	5080.89	6119.19	7185.33
<i>Growth (%)</i>	1.4	-8.8	36.2	20.4	17.4
Other Income	78.04	102.98	76.00	85.23	79.19
Total Income	4171.10	3834.45	5156.89	6204.42	7264.52
Total Expenditure	3191.05	2814.35	4169.45	4949.07	5710.29
EBITDA (other income included)	980.05	1020.10	987.44	1255.35	1554.23
Interest	9.40	9.35	9.17	10.43	7.96
EBDT	970.65	1010.75	978.27	1244.92	1546.28
Depreciation	130.21	136.32	176.69	204.90	246.48
Tax	174.51	221.66	205.00	261.77	327.55
Net profit	665.93	652.77	596.58	778.24	972.25
Profit/loss of associate & JV	4.98	7.25	8.16	8.97	9.87
MI	4.45	4.26	0.48	1.25	1.50
Net profit after MI	666.46	655.76	604.26	785.97	980.62
Extraordinary item	0.22	0.64	-0.42	-26.25	-
Adjusted Net Profit	666.24	655.12	604.68	812.22	980.62
EPS (Rs.)	224.61	221.17	204.37	275.20	332.26

Segment Results

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
Segment Revenue					
Life Science Chemicals	1251.95	1216.37	1465.10	1864.84	2234.01
Performance & Other Chemicals	2984.50	2621.88	3759.18	4420.37	5140.54
Others	36.83	48.48	69.98	83.98	100.77
Income from operations	4273.28	3886.73	5294.26	6369.19	7475.33
Inter - Segment Revenue	180.22	155.26	213.37	250.00	290.00
Net Segment Revenue	4093.06	3731.47	5080.89	6119.19	7185.33
Segment EBIT					
Life Science Chemicals	223.16	219.57	178.88	317.02	402.12
Performance & Other Chemicals	603.97	594.16	575.89	688.39	873.10
Others	11.13	11.30	24.43	20.99	25.19
Sub Total	838.26	825.03	779.20	1026.41	1300.41
Interest	9.40	9.35	9.17	10.43	7.96
Other Unallocable Exp. (net of income)	-11.58	-58.75	-31.55	-24.04	-7.34
PBT	840.44	874.43	801.58	1040.02	1299.80

Consolidated Balance Sheet

Figures in Rs crs

	FY20	FY21	FY22	FY23e	FY24e
SOURCES OF FUNDS					
Share Capital	29.68	29.61	29.61	29.53	29.53
Reserves	3125.22	3796.91	4399.35	5015.16	5952.96
Total Shareholders Funds	3154.90	3826.52	4428.96	5044.69	5982.49
Minority Interest	26.37	30.63	30.88	32.13	33.63
Long term debt	86.58	98.21	61.05	41.05	21.05
Total Liabilities	3267.85	3955.36	4520.89	5117.87	6037.17
APPLICATION OF FUNDS					
Gross Block	1603.28	1999.09	2345.00	2895.00	3395.00
Less: Accumulated Depreciation	493.15	597.33	728.50	933.40	1179.88
Impairment					
Net Block	1110.13	1401.76	1616.50	1961.60	2215.12
Capital Work in Progress	368.14	249.70	420.47	400.00	400.000
Investments	1137.31	1361.05	1338.70	1434.15	1678.64
Current Assets, Loans & Advances					
Inventory	503.37	594.14	864.12	1040.26	1221.51
Sundry Debtors	719.73	733.23	989.01	1162.65	1365.21
Cash and Bank	35.37	348.18	68.92	19.95	110.98
Other Assets	171.65	148.20	216.80	244.81	271.66
Total CA & LA	1430.12	1823.75	2138.85	2467.67	2969.36
Current liabilities	694.10	768.36	951.75	1057.36	1126.61
Provisions	37.67	37.76	46.80	55.24	65.36
Total Current Liabilities	731.77	806.12	998.55	1112.60	1191.97
Net Current Assets	698.35	1017.63	1140.30	1355.07	1777.39
Net Deferred Tax	-107.84	-132.88	-127.13	-135.52	-144.79
Other Assets (Net of liabilities)	61.76	58.10	132.05	102.58	110.82
Total Assets	3267.85	3955.36	4520.89	5117.87	6037.17

Key Financial Ratios

	FY20	FY21	FY22	FY23e	FY24e
Growth Ratios					
Revenue (%)	1.4	-8.8	36.2	20.4	17.4
EBIDTA (%)	22.0	4.0	-3.1	30.6	20.4
Net Profit (%)	53.8	-1.7	-7.7	34.3	20.7
EPS (%)	53.8	-1.5	-7.6	34.7	20.7
Margins					
Operating Profit Margin (%)	22.0	24.6	17.9	19.7	20.5
Gross Profit Margin (%)	23.7	27.1	19.3	20.9	21.5
Net Profit Margin (%)	16.3	17.5	11.7	13.1	13.5
Return					
ROCE (%)	22.6	18.4	14.4	16.9	17.8
ROE (%)	23.2	19.1	15.0	17.6	18.2
Valuations					
Market Cap / Sales	2.9	5.6	6.0	4.5	3.9
EV/EBIDTA	11.0	19.0	29.6	20.5	17.0
P/E	17.8	32.0	50.4	34.1	28.2
P/BV	3.8	5.6	7.0	5.6	4.7
Other Ratios					
Interest Coverage	90.4	94.4	88.5	104.0	164.4
Debt-Equity Ratio	0.0	0.0	0.0	0.0	0.0
Current Ratio	3.5	3.6	3.2	3.2	3.6
Turnover Ratios					
Fixed Asset Turnover	3.8	3.0	3.4	3.5	3.5
Total Asset Turnover	1.4	1.1	1.2	1.3	1.3
Debtors Turnover	5.8	5.1	5.9	5.7	5.7
Inventory Turnover	6.3	5.1	5.7	5.2	5.0
Creditors Turnover	7.4	5.4	7.0	7.2	7.2
WC Ratios					
Debtor Days	63.2	71.1	61.9	64.2	64.2
Inventory Days	58.1	71.2	63.8	70.7	72.3
Creditor Days	49.0	67.5	52.4	50.8	51.0
Cash Conversion Cycle	72.3	74.7	73.3	84.1	85.5

Cumulative Financial Data

Figures in Rs crs	FY13-15	FY16-18	FY19-21	FY22-24e
Income from operations	7157	8724	11862	18385
Operating profit	1015	1476	2588	3592
EBIT	886	1311	2417	3205
PBT	793	1246	2390	3177
PAT after EO	541	871	1754	2398
Dividends	78	117	214	266
OPM (%)	14.2	16.9	21.8	19.5
GPM (%)	13.5	17.4	23.4	20.7
NPM (%)	7.7	9.9	14.7	12.9
Interest coverage	9.6	20.0	92.4	116.3
ROE (%)	17.5	16.4	19.8	16.7
ROCE (%)	15.0	15.6	19.3	16.3
Debt-equity ratio*	0.2	0.0	0.0	0.0
Fixed asset turnover	5.6	3.8	3.3	3.4
Total asset turnover	2.1	1.6	1.3	1.3
Debtors turnover	6.0	5.0	5.4	5.8
Inventory turnover	5.5	5.9	6.1	5.4
Creditors turnover	7.5	6.6	6.0	6.9
Debtors days	61.0	73.0	67.2	62.5
Inventory days	66.4	62.2	59.4	67.2
Creditor days	48.8	55.7	60.3	52.8
Cash conversion cycle	78.7	79.4	66.3	76.9
Dividend payout ratio (%)	13.5	13.6	12.3	19.4

FY13-15 implies three years ending fiscal 15; *as on terminal year

With operational challenges in Atul Bioscience's Ambernath site now sorted out and Anaven's teething problems overcome, Atul could see higher contribution from subsidiaries and JV s over the next few years, helping cumulative revenues during FY22-24e (three years ended FY24) grew by an astonishing 55% when compared to previous three period (see table); though higher product realizations will also have a role to play. Sub-optimal utilization of installed capacities coupled with entrenched material inflation would fend off margin expansion arising from operating leverage - OPM projected to fall to 19.5% from 21.8% in FY19-21 period.

Despite increased sales momentum, barely modest gestation period for capital investments in chemical industry - some projects worth Rs 1600 crs are at various stages of completion, including DPD, Atul Products and standalone entity - total asset turnover ratio is unlikely to ascend during FY22-24e period, thus putting pressure on return on capital - ROE estimated at 16.7% as against 19.8% in FY19-21 period (see table). Thanks to decreasing inventory turnover, cash conversion cycle is unlikely to improve - 77 days projected from ~66 days in FY19-21 period.

Financial Summary – US dollar denominated

million \$	FY20	FY21	FY22	FY23e	FY24e
Equity capital	3.9	4.0	3.9	3.7	3.7
Shareholders funds	414.6	508.6	570.6	622.8	739.4
Total debt	14.4	17.2	18.3	17.2	5.2
Net fixed assets (incl CWIP)	192.2	220.7	264.9	294.8	326.9
Investments	150.9	185.2	176.6	181.3	212.2
Net current assets	92.6	130.4	140.7	160.1	211.6
Total assets	429.6	526.1	582.8	632.0	746.3
Revenues	577.5	502.9	681.9	773.4	908.2
EBITDA	138.2	137.4	132.6	163.1	196.5
EBDT	136.9	136.1	131.4	161.8	195.4
PBT	118.5	117.7	107.7	135.9	164.3
PAT	94.0	88.3	81.2	102.7	123.9
EPS(\$)	3.17	2.98	2.74	3.48	4.20
Book value (\$)	14.0	17.2	19.3	21.1	25.1

*income statement figures translated at average rates; balance sheet and cash flow at year end rates; projections at current rates(Rs 79.12\$)

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buy: >20% accumulate: >10% to ≤20% hold: ≥-10% to ≤10% reduce: ≥-20% to <-10% sell: <-20%

Exchange Rates Used- Indicative

Rs/\$	FY18	FY19	FY20	FY21	FY22
Average	64.45	69.89	70.88	74.20	74.51
Year end	65.04	69.17	75.39	73.50	75.81

All \$ values mentioned in the write-up translated at the average rate of the respective quarter/ year as applicable. Projections converted at current exchange rate. Cumulative dollar figure is the sum of respective yearly dollar value.