

Equity Research Report Chemicals
Atul Ltd

Date: May 1, 2023

Analyst Recommendation: Hold

BSE Code: 515030

NSE:ASAHIINDIA

CMP: Rs 6872
2 Year Target: Rs 7,483

Investor's Rationale

➤ Business Environment to remain weak over FY24

Performance & Other Chemicals (P&OC) segment saw a lackluster performance in FY23 owing to challenging demand environment. Aromatics, Colors and Polymers were the worst hit witnessing very low demand especially from the exports market with lower utilization levels at the customer's end also resulting in drop in selling prices. Margins of P&OC also saw a sharp fall of ~10 percentage points YoY owing to lower demand and inability to pass on higher input costs to its customers. Despite some signs of revival in Q4FY23 we expect the overall business environment to remain challenging over the course of FY24

➤ Under utilization of capacities will be a key issue to address

Atul Ltd has ~Rs 1bn of unrealized sales potential across its sub segments. Owing to weak demand, plants are operating at low levels which will be a key issue to address going forward. With projects worth ~Rs 3.44bn added in FY23 and ~Rs 14.2bn under implementation timely execution and faster scale up would remain crucial for driving the company's growth going forward..

➤ Valuation

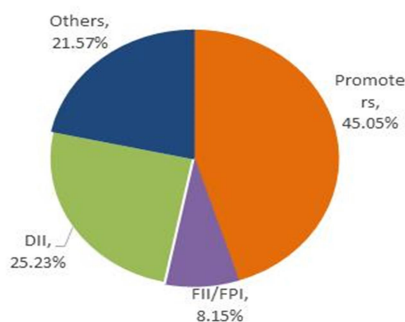
Despite a large capex of ~Rs 17.5bn envisaged over FY23-24 we do not foresee any significant jump in ROCE's. Considering the near term challenges we believe that the company will take a longer time to achieve its guided unrealized sales potential of ~Rs 1bn.. We give Hold rating on the stock with a target price of Rs 7,483 (30x FY25E EPS).

Face Value	10.0
Market Cap (Rs cr)	20,281
52 week high/low	9813/6746
Shares O/S (Cr)	2.95
Book Value per Share (Rs)	1,583
Sensex	61,112
Nifty	18,065

1 yr. Price Chart of Stock and Nifty



Shareholding pattern as on 31st Mar 2023.



	FY22A	FY23A	FY24E	FY25E
Revenue (Rs.Cr)	50,809.0	54,275.0	58,609.0	65,619.0
EBITDA (Rs. cr)	1,767.0	1,978.0	2,336.0	2,711.0
Adj. profit (Rs.Cr)	6,043.0	5,141.0	6,116.0	7,361.0
P/E (x)	33.6	39.5	33.2	27.6
EV/EBITDA (x)	4.0	3.7	3.5	3.1
ROCE (%)	14.60	11.30	12.40	13.40
RoACE (%)	13.70	10.60	11.90	12.80

Aromatics (Intermediates and API Intermediates)

- Aromatics segment saw a 6.5% YoY growth to Rs 12.2bn. CAGR growth on a 3 year/5year/10 year basis stood at 0.6/6.7/9.4% respectively.
- Witnessing strong competition from China post full reopening of economic activities in the country.
- Anti-Oxidants which has high consumption in Europe saw very low demand owing to the ongoing challenges in the region which impacted sales of Para Cresol in FY23.
- Currently witnessing signs of demand pick up in para cresol and the segment is expected to perform better in FY24.
- The company has plans of proposing 3-4 new capex projects to the board in FY24.
- ATLP is yet to derive full potential of its under-utilized capacity and is expected to add incremental sales of Rs 2.6bn from the Aromatics segment

Bulk Chemicals and Intermediates

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- Sales for the year were up by 8.1% YoY to Rs 4.9bn. CAGR growth on a 3 year/5year/10 year basis stood at 8.7/10.9/19.3% respectively.
- The company has unrealized sales potential of Rs 750mn from the capex gone by.
- The company has 23 products and serves 214 customers.
- Witnessing strong competition from China post full reopening of economic activities in the country.
- Anti-Oxidants which has high consumption in Europe saw very low demand owing to the ongoing challenges in the region which impacted sales of Para Cresol in FY23.
- Currently witnessing signs of demand pick up in para cresol and the segment is expected to perform better in FY24.
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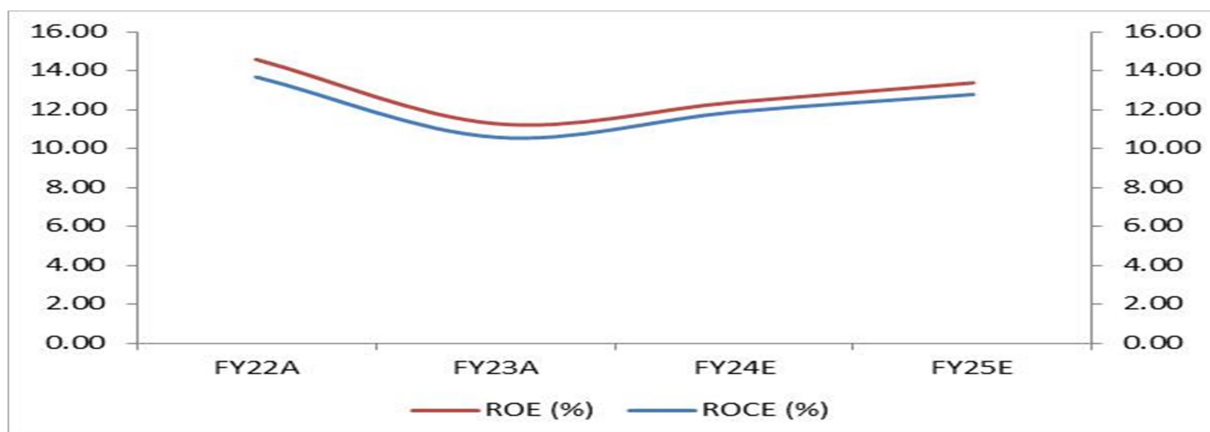
Bulk Actives and Crop Protection Retail

- Sales grew by 24.5% YoY to Rs 11.5bn. Bulk active ingredients business saw an increase of ~27.4% YoY to Rs 9.5bn with volumes contributing ~20%. Retail business was up by ~11.9% YoY to Rs 1.97bn with volumes contributing ~6%. CAGR growth on a 3 year/5year/10 year basis stood at 17.8/12.1/11.5% respectively.
- Growth in FY23 was largely led by 2 4 D. However industry is witnessing higher channel inventories of 2 4 D with lower demand from some key regions which is expected to impact demand in FY24. Also prices of key RM have started to moderate leading to reduction in prices of 2 4 D starting Q4FY23.
- The crop protection segment can add Rs 1.08bn worth sales from sales of intermediates for which the company is likely to incur Rs 1.3bn capex.
- The company has 34 Technicals and 40 Formulations under their Crop protection business.

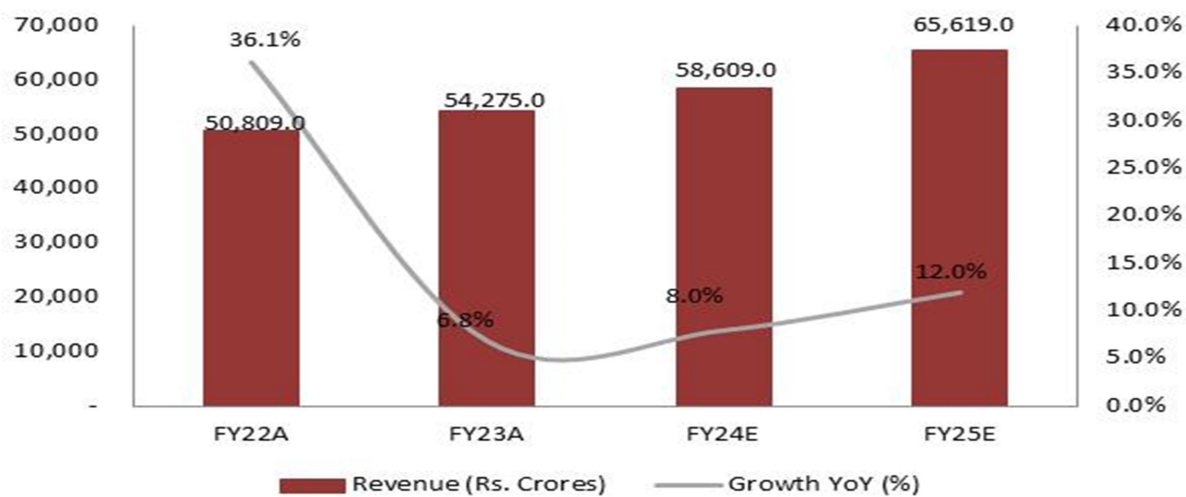
Colors (Textile Dyes, Pigments)

- Sales for the year saw a 22.2% drop YoY to Rs 6.2bn with volumes contributing ~25%. CAGR growth on a 3 year/5year/10 year basis stood at (0.1)/6.7/6.6% respectively.
- Textile industry is witnessing slowdown on account of low demand, sharp rise in cotton prices and high energy and logistics cost.
- Current Sulphur black capacity ~23,000 tons out of which the company is only able to sell
- ~7000 tons owing to lower demand.

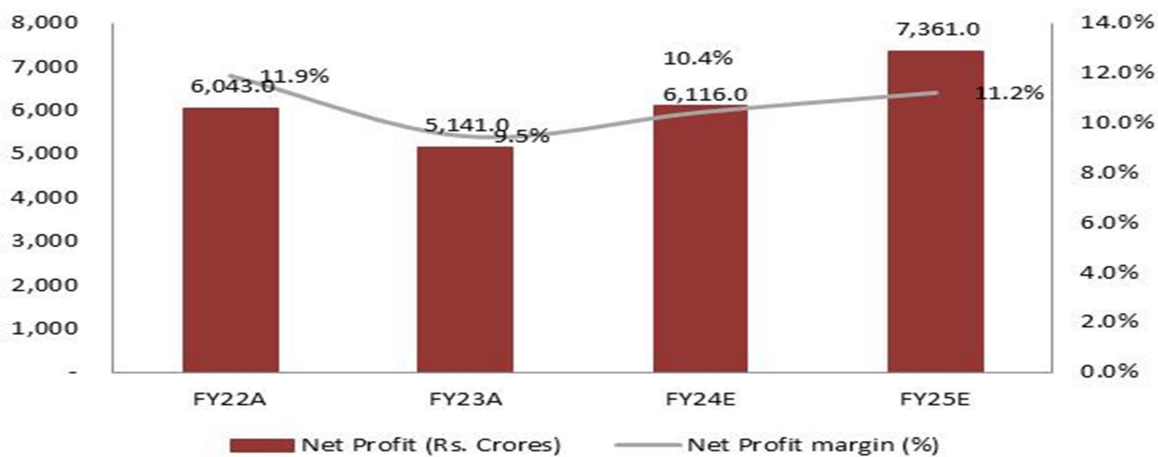
Return ratios to remain stagnant



Revenue will experience growth



Net profit will remain stable



Outlook and Valuation

Atul Ltd is expected to face another challenging year as market conditions are expected to remain weak led by low demand, pricing corrections and recessionary fears across global markets. Despite a large capex of ~Rs 17.5bn envisaged over FY23-24 we do not foresee any significant jump in ROCE's. Considering the near term challenges we believe that the company will take a longer time to achieve its guided unrealized sales potential of ~Rs 1bn. We give Hold rating on the stock with a target price of Rs 7,483 (30x FY25E EPS)

Atul Ltd- Company Overview

Atul Ltd. is a diversified and integrated Indian chemical company (a part of Lalbhai Group, Gujarat). The products of the company are used in various Industries and come mainly under two segments, Life Science Chemicals and Performance and Other Chemicals under 9 Businesses.

Since its incorporation, the company has manufactured many products for the first time in India Dyes including Vat Dyes, crop care chemicals, Phosgene, Carbamate, 2,4-D Acid, para Cresol, tissue culture raised date palms

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Balance sheet (Consolidated)

(Rs million)	FY22A	FY23A	FY24E	FY25E
Liabilities				
Equity Capital	296	295	295	295
Reserves	43994	46419	51579	57788
Net Worth	44290	46714	51874	58083
Total Liabilities				
Total Debt	1384	470	370	270
Net Deferred Tax Liability	1271	1174	1174	1174
Total Liabilities	46,945	48,358	53,418	59,527
Assets				
Net Block	16591	18092	25756	28044
CWIP	4205	10329	3329	829
Investments	7637	6518	6518	6518
Current Assets, Loans & Advances	28466	22577	27369	34381
Less: Current Liabilities & Provisions	9645	8678	9073	9765
Net Current Assets	18821	13899	18296	24616
Other Assets	309	480	481	480
Total Assets	46,945	48,358	53,418	59,527

Profit & Loss Account (Consolidated)

(Rs million)	FY22A	FY23A	FY24E	FY25E
Total operating Income				
	50,809	54,275	58,609	65,619
EBITDA				
	9,114	7,748	9,485	11,451
Depreciation				
	1,767	1,978	2,336	2,711
EBIT				
	7,347	5,770	7,149	8,740
Interest cost	92	79	69	62
Other Income & Extraordinary Items	760	1,149	1,000	1,000
Profit before tax	8,016	6,840	8,080	9,677
Tax	2,050	1,812	2,034	2,436
Profit after tax	6,043	5,141	6,116	7,361
Minority Interests				
P/L from Associates				
Other				
Adjusted PAT	6,043	5,141	6,116	7,361



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Cash Flow Statement (Consolidated)

Y.E March (Rs crore)	FY22A	FY23A	FY24E	FY25E
Profit before tax	8016	6840	8080	9677
Depreciation & w.o.	1767	1978	2336	2711
Net Interest Exp	92	79	69	62
Direct taxes paid	-2007	-2041	-2034	-2436
Change in Working Capital	-4494	1416	-3804	-1986
(A) CF from Operating Activities	3374	8271	4647	8030
Capex {(Inc.)/ Dec. in Fixed Assets n WIP}	-5622	-9434	-3000	-2500
Free Cash Flow	-2248	-1163	1647	5530
(B) CF from Investing Activities	-6,279	-5,040	-3,000	-2,500
Inc./ (Dec.) in Debt	117	-914	-100	-100
Interest exp net	-92	-79	-69	-62
(C) CF from Financing	-6279	-5040	-3000	-2500
Net Change in Cash	-2,793	-169	592	4,334
Opening Cash balances	3482	689	520	1113
Closing Cash balances	689	520	1113	5447

Key Ratios & Valuations (Consolidated)

Y.E March (Rs crore)	FY22A	FY23A	FY24E	FY25E
Per share data (Rs.)				
AEPS (Rs)	204.2	173.8	206.7	248.8
CEPS (Rs)	263.9	240.6	285.7	340.4
DPS (Rs)	20	32.4	29.9	34.9
Margin (%)				
EBITDA	3.5%	3.6%	4.0%	4.1%
NPM	11.9%	9.5%	10.4%	11.2%
Return Ratios (%)				
RoANW (%)	14.6	11.3	12.4	13.4
RoACE (%)	13.7	10.6	11.9	12.8
Valuation(x)				
P/E	33.6	39.5	33.2	27.6
MCap/ Sales	4	3.7	3.5	3.1
EV/Sales	3.9	3.7	3.4	3
EV/EBITDA	21.8	25.9	21.1	17.1
P/BV	4.6	4.4	3.9	3.5



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Large Cap.	Return	Mid/Small Cap.	Return
Buy	More than equal to 10%	Buy	More than equal to 15%
Hold	Between 10% & -5%	Accumulate*	Upside between 10% & 15%
Reduce	Less than -5%	Hold	Between 0% & 10%
		Reduce/sell	Less than 0%

** To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.*



Member: BSE, NSE, MCX, MCX-SX, CDSL

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