



India

REDUCE (no change)

Consensus ratings*: Buy 5 Hold 3 Sell 4

Current price:	Rs7,752
Target price: ▲	Rs6,431
Previous target:	Rs6,370
Up/downside:	-17.0%
InCred Research / Consensus:	-31.8%
Reuters:	ATLP.NS
Bloomberg:	ATLP IN
Market cap:	US\$2,812m Rs228,785m
Average daily turnover:	US\$4.0m Rs322.5m
Current shares o/s:	29.6m
Free float:	55.2%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	(5.9)	(10.4)	(21.8)
Relative (%)	(4.6)	(12.8)	(23.6)

Major shareholders	% held
Promoter & Promoter Group	44.8
HDFC Trustee Company Ltd	6.5
DSP Midcap Fund	5.2

Atul Ltd

Deep dive into expansion project - REDUCE

- Like all chemical companies, Atul is also incurring a capex of ~Rs20bn for expanding its capacity. We have dived deep into its expansion plan and as per our estimate, incremental gross profit can be ~Rs28bn at 100% utilization.
- Most of the expansion is in the traditional areas of agrochemicals and resins. Atul is also making multiple commodity chemicals like caustic soda where the margins are volatile.
- Near-term earnings risks are high & consensus EPS estimates for FY24F and FY25F need a big cut. Retain REDUCE rating with Rs6,431 as FY24F-end TP.

At full utilization, new capex can contribute Rs28bn to gross profit

We have analysed Atul's expansion project in detail. The source of project data is (<http://environmentclearance.nic.in/>). These projects can add Rs28bn in gross profit when there is 100% capacity utilization. However, 100% capacity utilization can take five years. Atul has filed for environmental clearance or EC for its 1.2mt production capacity and our analysis encompasses the following: 1) 220kt of caustic soda, DNCB, manganese sulphate, and sulphur black capacity, 2) 200kt of glyphosate, glycine and other agrochemicals capacity, 3) epoxy resins and polygrip capacity of 220kt, and 4) multiple API intermediaries (50-70kt) and other chemicals (500kt). Based on average spreads of the last seven years, we forecast that when the entire capacity comes online, then Atul's gross profit will rise by Rs28bn which will lead to an increase in the EPS by 70% over FY23F. However, please note that given the slowdown in overall demand, we believe that 100% utilization of the expanded capacity is at least five years away.

Near-term consensus EPS appears to be too high

Consensus EPS estimates for FY23F, 24F and 25F appear to be too high and all of them need to be cut by 13%, 20% and 25%, respectively. As we have stated earlier, inflated consensus EPS estimates are normally a sign of a peak cycle. As of now, to some extent, market doesn't believe consensus EPS estimates but it also doesn't believe that the estimate for FY25F needs to be cut by 25%.

We value Atul at 25x FY25F EPS; retain REDUCE rating

We have valued Atul at 25x FY25F EPS, which is approximately at a 15% premium to its long-term mean valuation of 21.5x. However, please note that our EPS estimate for FY25F is 25% below the consensus estimate. The peak EPS considering 100% utilization of new capacity can be around Rs340, but instead of FY25F this EPS may be realized in FY28F. We retain our REDUCE rating on the stock. We believe that one should wait for a better price to make an entry.

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Financial Summary

	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue (Rsm)	37,315	50,809	56,906	65,442	75,258
Operating EBITDA (Rsm)	9,171	9,114	9,576	10,731	12,792
Net Profit (Rsm)	6,528	5,966	5,856	6,383	7,651
Core EPS (Rs)	220.3	201.3	197.3	215.0	257.8
Core EPS Growth	(1.8%)	(8.6%)	(2.0%)	9.0%	19.9%
FD Core P/E (x)	35.19	38.51	39.29	36.05	30.07
DPS (Rs)	26.5	24.1	23.7	25.8	30.9
Dividend Yield	0.34%	0.31%	0.31%	0.33%	0.40%
EV/EBITDA (x)	23.38	23.84	22.82	20.65	16.88
P/FCFE (x)	255.93	305.53	5,578.50	(404.32)	33.65
Net Gearing	(24.9%)	(10.8%)	(14.4%)	(7.3%)	(15.7%)
P/BV (x)	5.99	5.19	4.67	4.20	3.75
ROE	18.6%	14.5%	12.5%	12.3%	13.2%
% Change In Core EPS Estimates			(0.23%)	(0.29%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

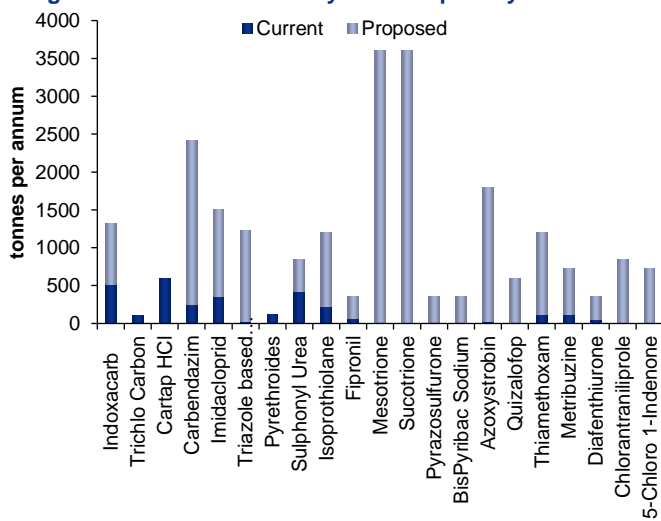
Deep dive into expansion project - REDUCE

We have analysed Atul's expansion project in detail. The source of project data is (<http://environmentclearance.nic.in/>). The expansion project can be divided into three parts: 1) dyes, 2) agrochemicals and APIs, 3) epoxy resins and related chemicals, and 4) multiple API intermediaries (50-70kt) & other chemicals (500kt).

Agrochemicals- Manufactures generic agrochemicals

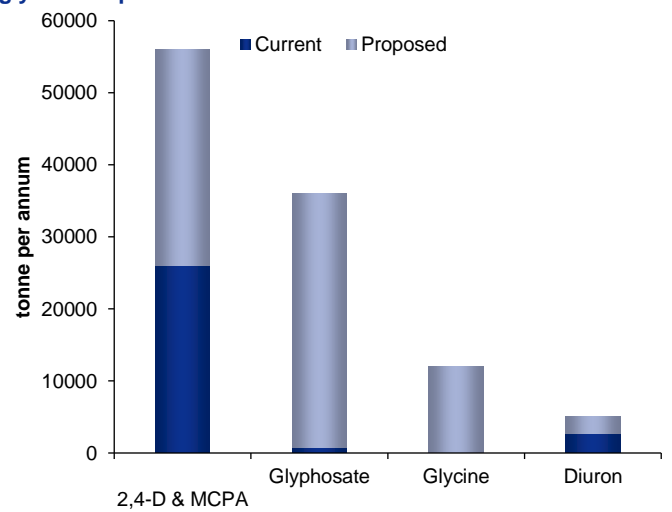
Atul is expanding into all generic agrochemicals whose markets are either stagnating or falling. The chart below gives the details of the proposed expansion plans. We estimate that gross profit from this segment can be around Rs15bn.

Figure 1: There are multiple products whose expansion is being undertaken in a relatively smaller quantity



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: However, the big expansion in glyphosate, 2,4-D and glycine surprises us

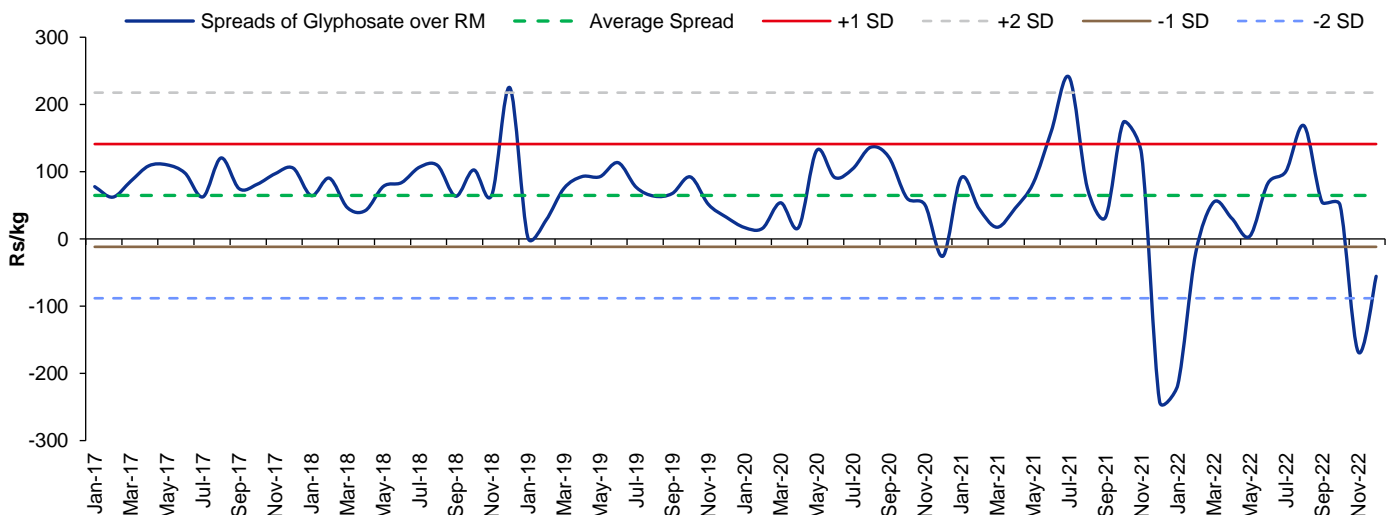


SOURCE: INCRED RESEARCH, COMPANY REPORTS

36,000t new glyphosate capacity surprises us ➤

Glyphosate is an age-old, highest selling herbicide (in US\$ terms) globally. China has one of the biggest herbicide capacities. Herbicide prices have been highly volatile and so are its spreads over raw material. Please note that several governments have banned/restricted (including India) the usage of this herbicide.

Figure 3: Glyphosate spreads over raw material have been highly volatile



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Glycine as an intermediary for manufacturing pharmaceuticals >

Glycine is an amino acid that has a single hydrogen atom as its side chain. It is the simplest stable amino acid (carbamic acid is unstable) having the chemical formula $\text{NH}_2\text{-CH}_2\text{-COOH}$.

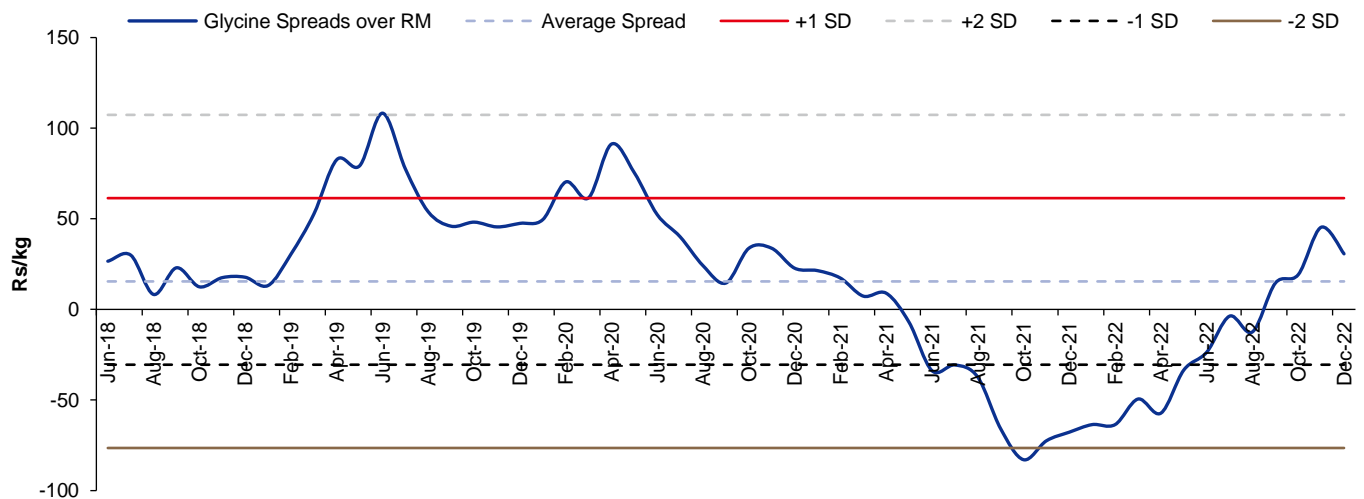
The principal function of glycine is to act as a precursor to proteins. Most proteins incorporate only a small quantity of glycine with the notable exception being collagen, which contains about 35% glycine due to its periodically repeated role in the formation of collagen's helix structure in conjunction with hydroxyproline.

Glycine is an inhibitory neurotransmitter in the central nervous system, especially in the spinal cord, brainstem, and retina.

India has been an exporter of this commodity chemical to many foreign destinations like USA, Malaysia, and other Middle East countries.

The competitors of Atul in export markets are Avid Organics, Valaji Chemicals, Himedia Laboratories, Paras Intermediates, Bajaj Healthcare, and Aditya Chemicals.

Figure 4: Glycine is an amino acid, but multiple Indian companies are already present in the export market; in the past few months, the spreads have expanded over raw material and this may be because of the China+1 strategy of buyers



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Diuron is another herbicide whose capacity is being expanded by the company >

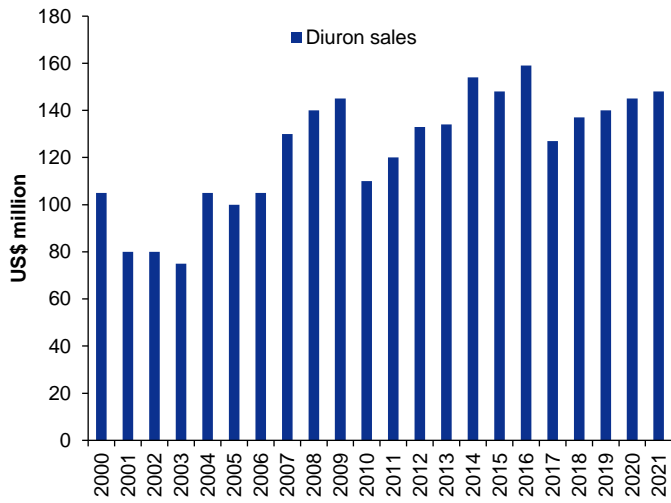
Diuron is the trade name for DCMU, an algaecide and herbicide active ingredient used for controlling annual and perennial broadleaf and grassy weeds in agricultural settings as well as for industrial and commercial applications. In its original form, Diuron is a white odourless solid and can come in many different formulations such as a wettable powder, granules, dry flowable products, pellets, suspended liquid concentrates, and water soluble mixtures.

Advantages: Diuron is versatile as it can be used as both a pre-emergent and post-emergent form of control on weeds and crops. Diuron has been best used in agricultural settings to control invasive weeds around forage crops, field crops, fruits, vegetables, nuts, and ornamental crops. In non-agricultural settings, Diuron can be used on industrial sites, rights-of-way, around farm buildings, and on irrigation and drainage ditches.

Disadvantages: Diuron only works best when the active ingredient is applied to young weeds in their very early stage as a post-emergent or pre-emergently before the seeds have sprouted. It is not effective against mature weeds.

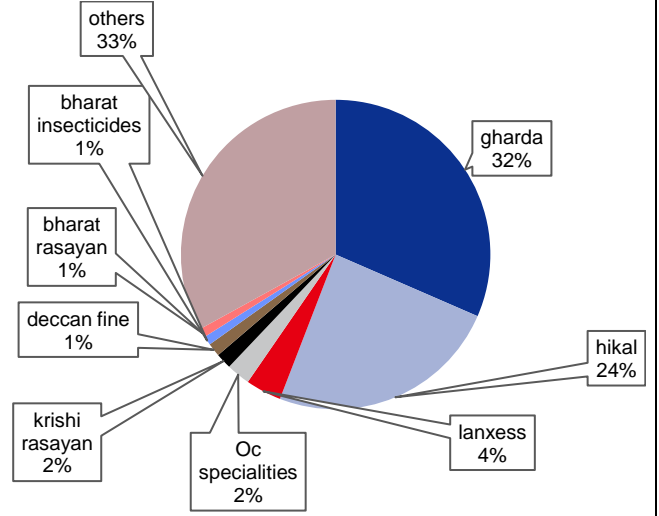
It's a generic herbicide whose patent expired in 1969. The key manufacturer of this compound is Drexel.

Figure 5: Over the last 20 years, Diuron sales have not shown significant growth - it's a stagnant generic herbicide



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 6: The export market in case of India is dominated by Hikal, Gharda, etc.; breaking into this low-value market will be a challenge in itself

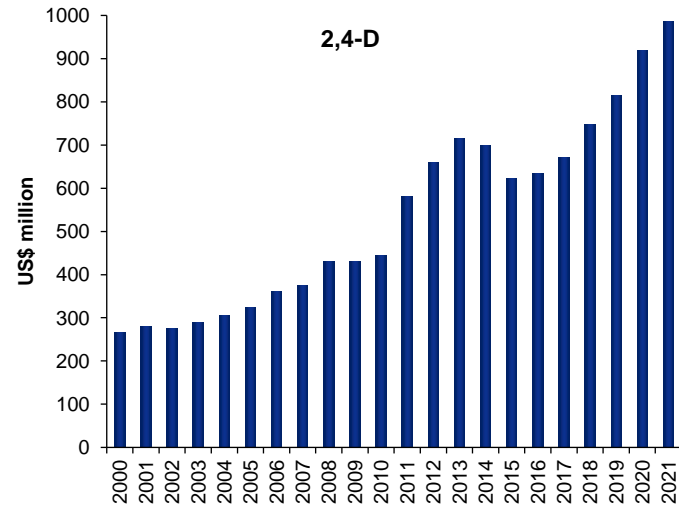


SOURCE: INCRED RESEARCH, COMPANY REPORTS

2,4 D is a well established herbicide whose prices are volatile, to say the least ➤

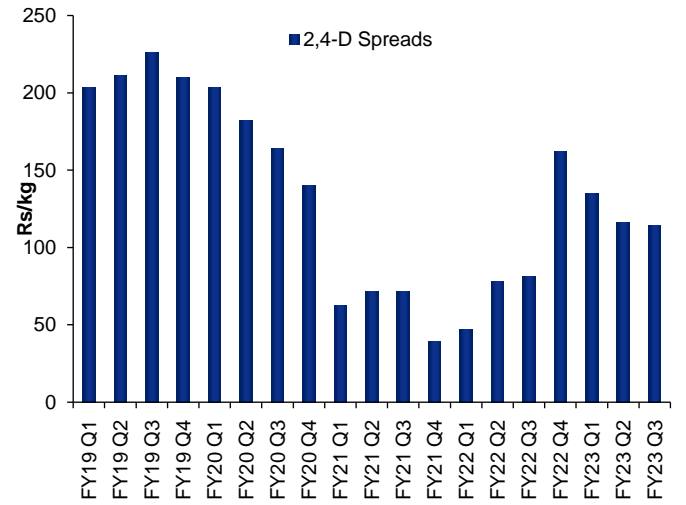
2,4-dichlorophenoxyacetic acid (2,4-D) is a mature commodity herbicide but remains an important product for low-cost broadleaf weed control in many crops.

Figure 7: 2,4D sales have been growing at a faster pace in the past few years



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 8: However, higher supply makes the product spreads volatile



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Sales of other agrochemicals are, at best, stagnant since the last seven years ➤

Figure 9: Since the last seven years, sales of most other agrochemicals have remained stagnant

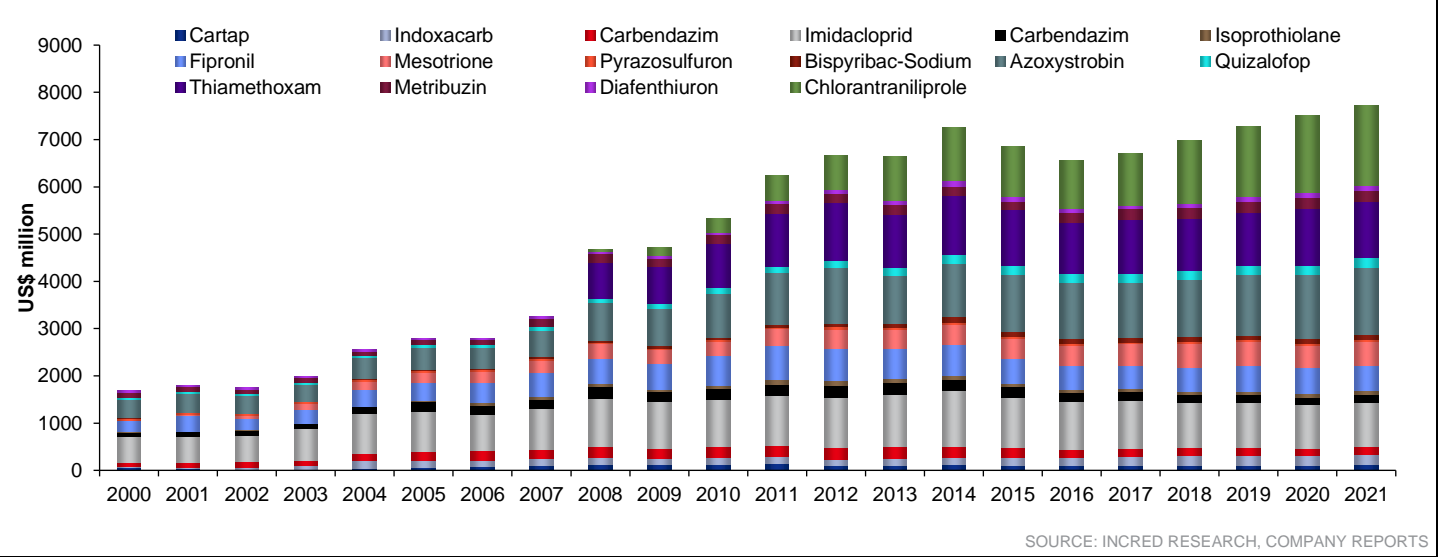


Figure 10: Triazole group of fungicide sales are also declining...

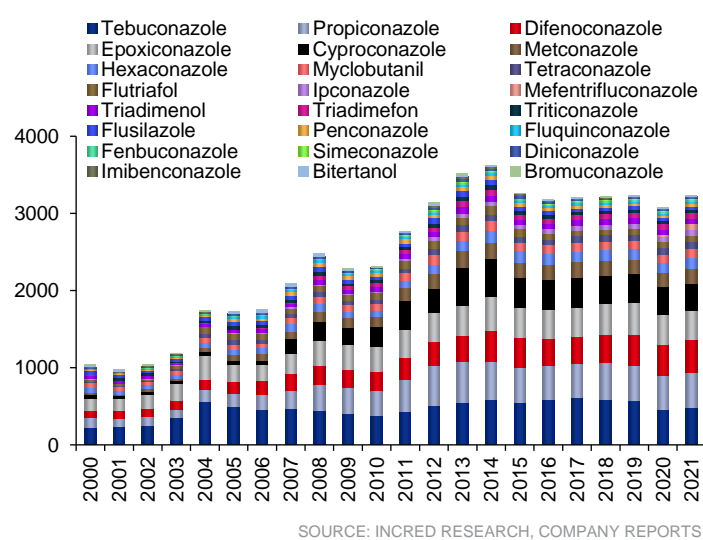
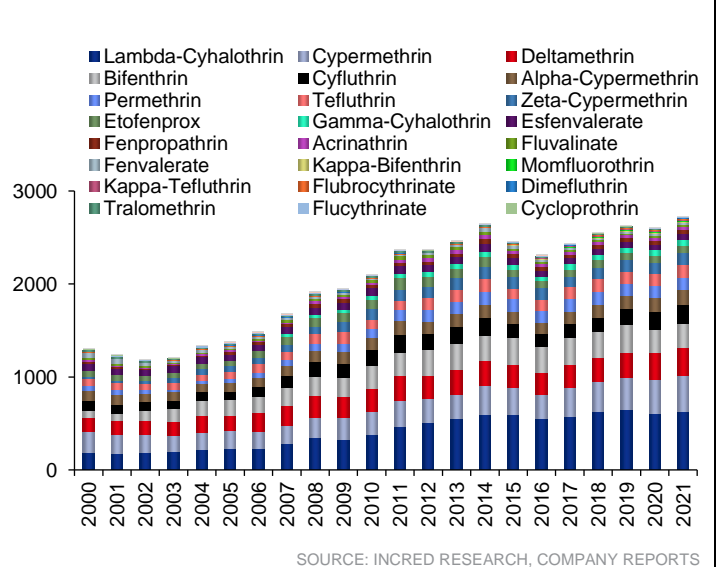
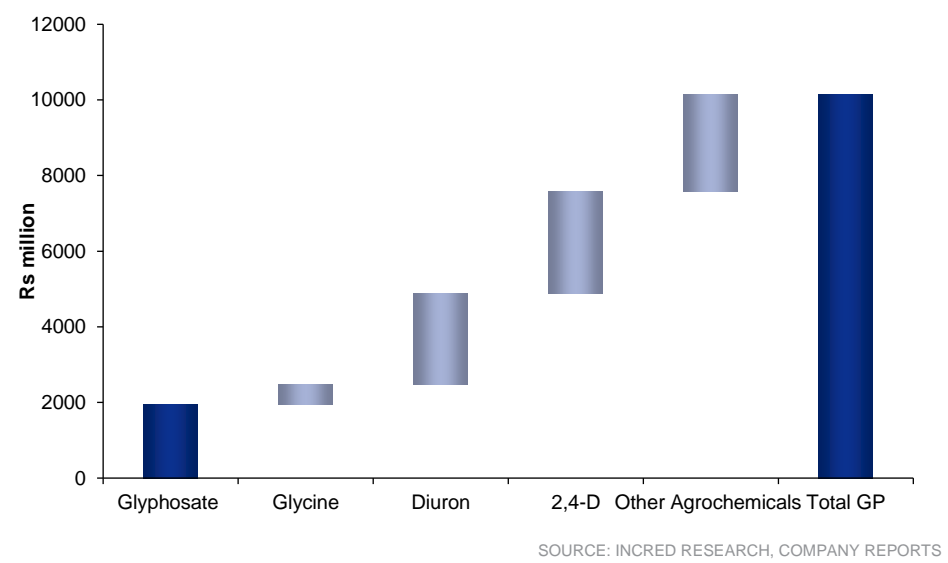


Figure 11: ...and similar is the case with pyrethroid sales



Overall gross profit from this segment's expansion under an average scenario can be ~Rs10bn ➤

Figure 12: Overall gross profit from expansion in the agrochemicals segment can be ~Rs10bn

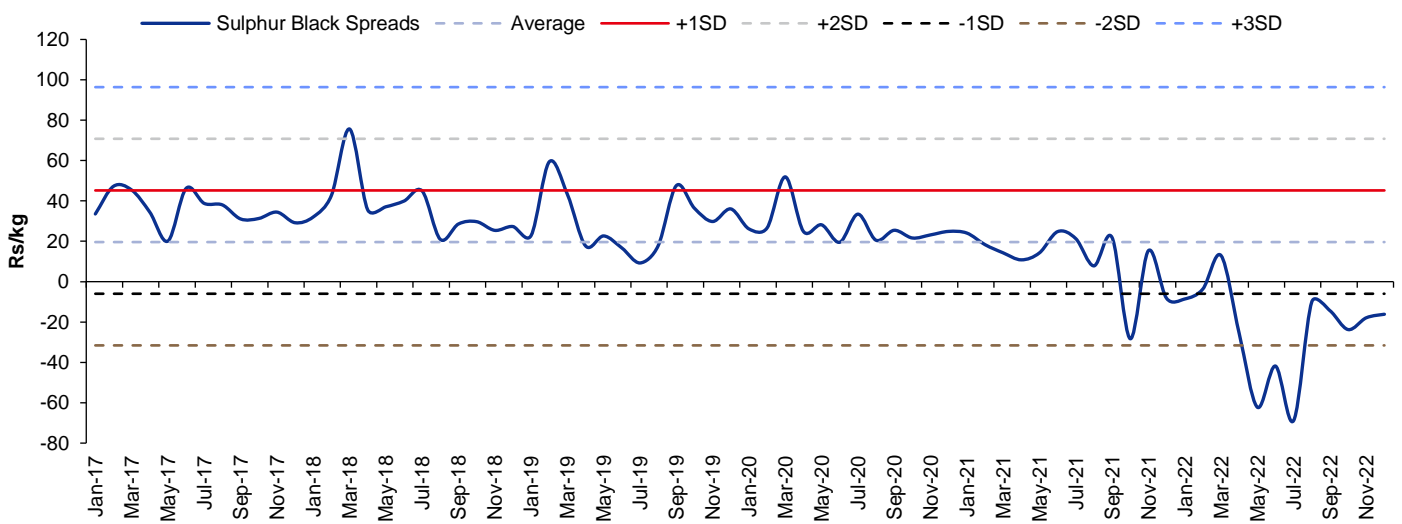


In dyes, sulphur and manganese sulphate are the main chemicals

In dyes and the chloralkali group, major planned capacity expansion is in sulphur black, caustic soda, DNCB, and manganese sulphate. At best, the capacity expansion, in our view, can generate Rs0.5bn in gross profit.

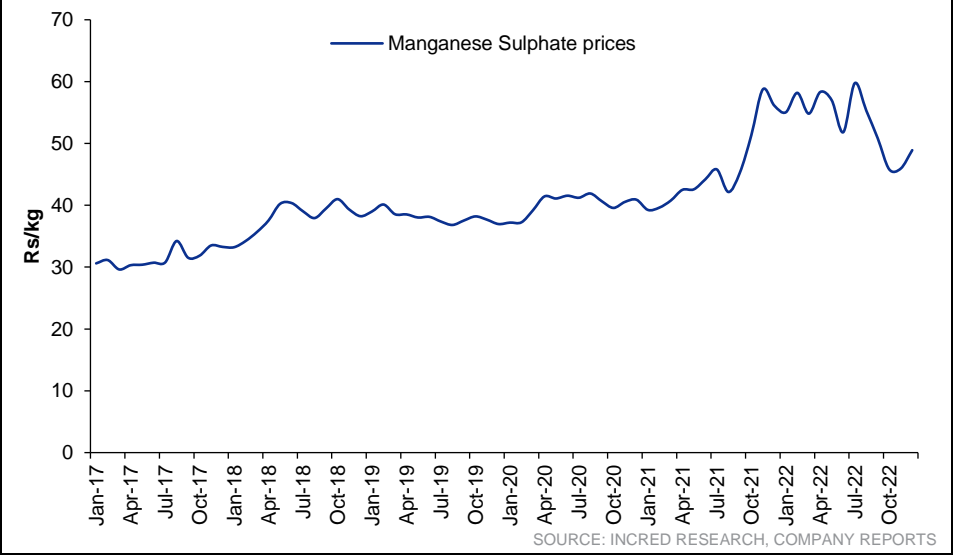
In an average spread scenario, sulphur black will make gross profit of Rs19-20/kg ➤

Figure 13: On an average, sulphur black makes Rs19-20/ kg in gross profit



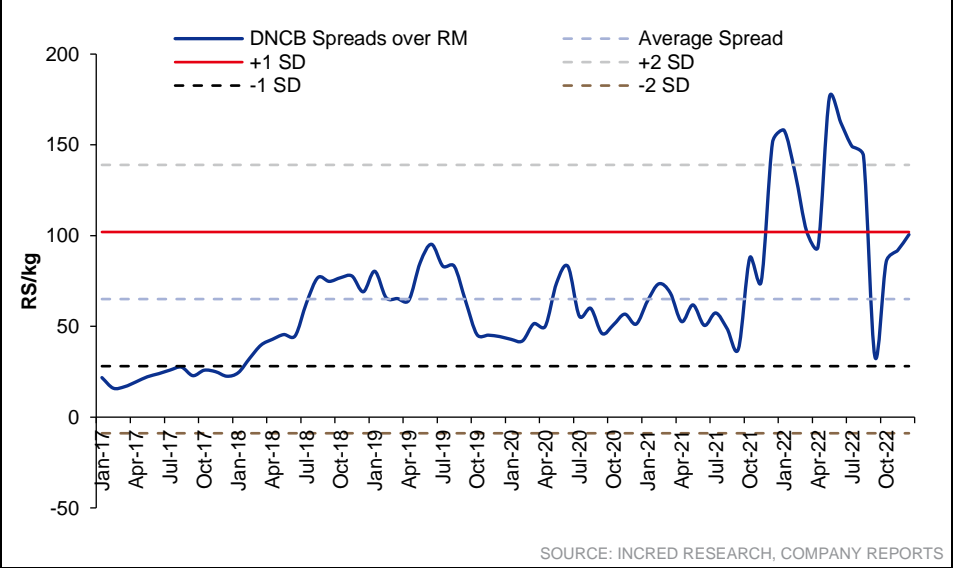
Manganese sulphate realization has remained rangebound, and we estimate gross margin of 40% on it ➤

Figure 14: 1,000t manganese sulphate expansion can yield, at best, Rs10-15m in gross profit



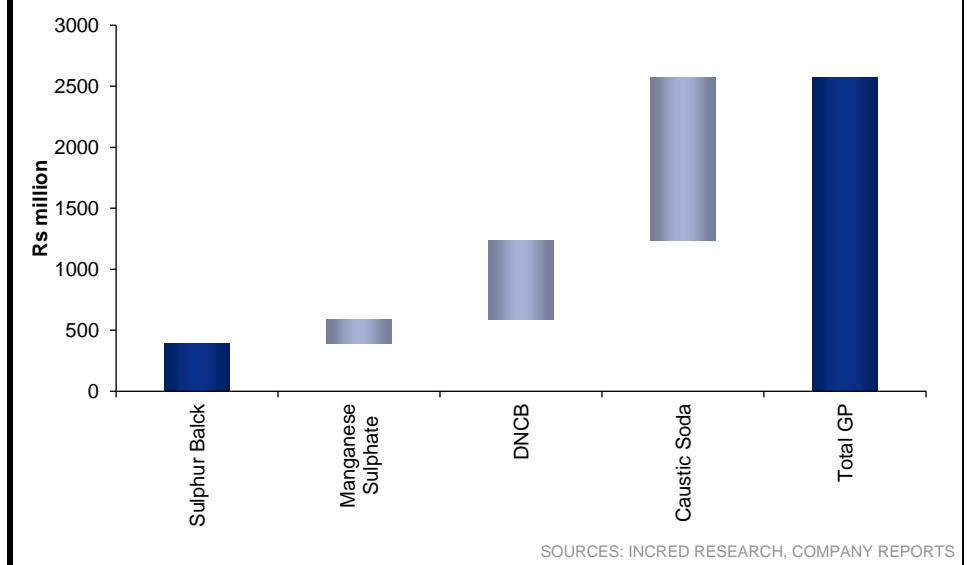
On an average, DNCB can generate Rs65/kg in gross profit ➤

Figure 15: DNCB spreads have corrected from their peak level, but they are still higher than historical average



Overall gross profit in this segment cannot be higher than Rs 2.6bn ➤

Figure 16: We expect this segment to add Rs2.6bn in gross profit

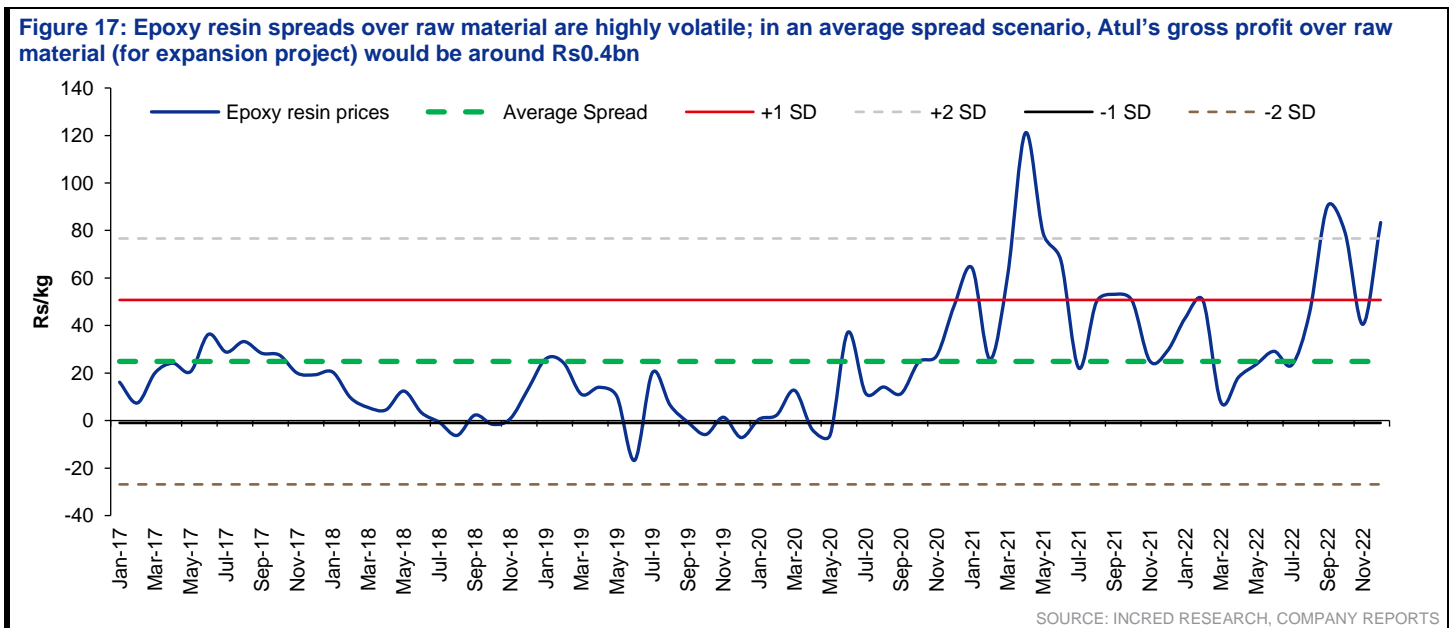


Another major capacity addition is in epoxy resins

Atul is also adding significant capacity in epoxy resins (180kt per annum) and polygrip group of resins where 24kt capacity is being added.

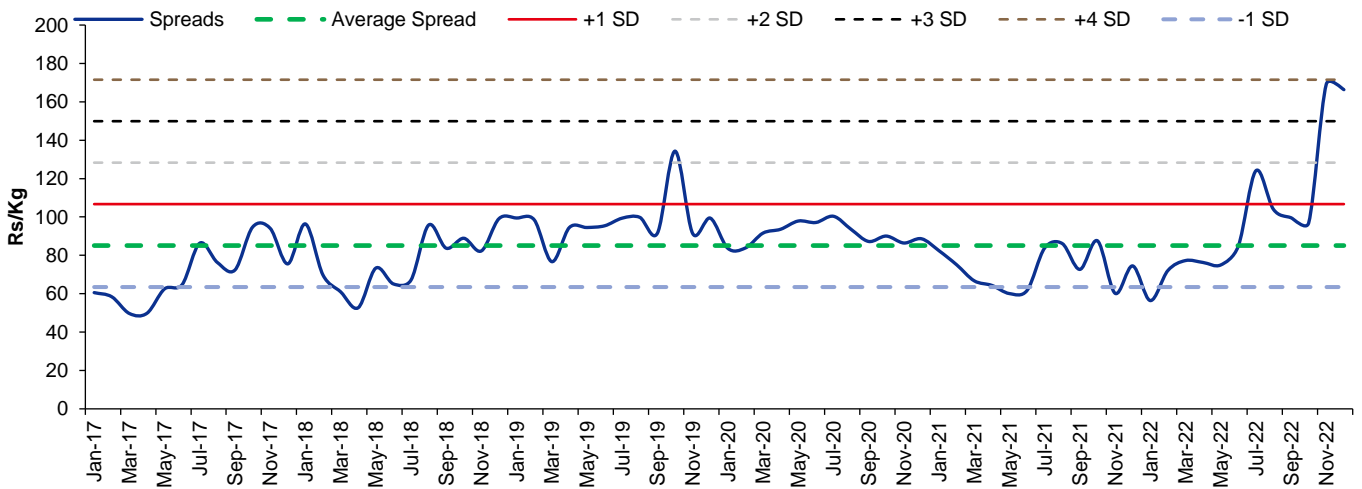
Like any other commodity, epoxy resins have highly volatile spreads over raw material ➤

Figure 17: Epoxy resin spreads over raw material are highly volatile; in an average spread scenario, Atul’s gross profit over raw material (for expansion project) would be around Rs0.4bn



Even polygrip TU is a commodity whose spreads are volatile ➤

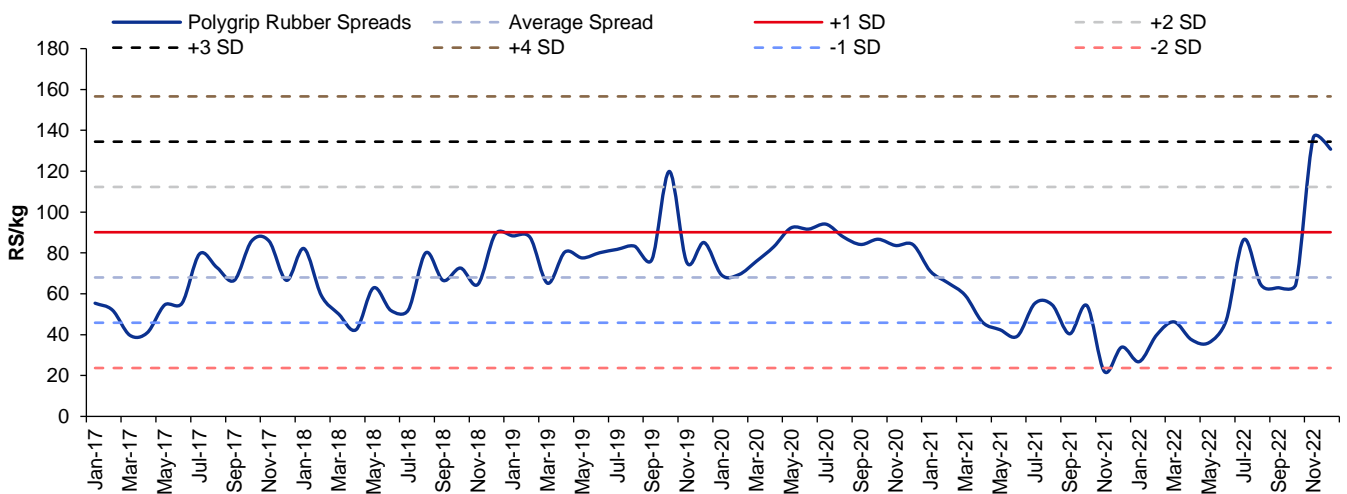
Figure 18: Polygrip TU spreads are highly volatile and as of now, its spreads are near +4SD of the long-term mean



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Polygrip rubber spreads are no different than that of polygrip TU ➤

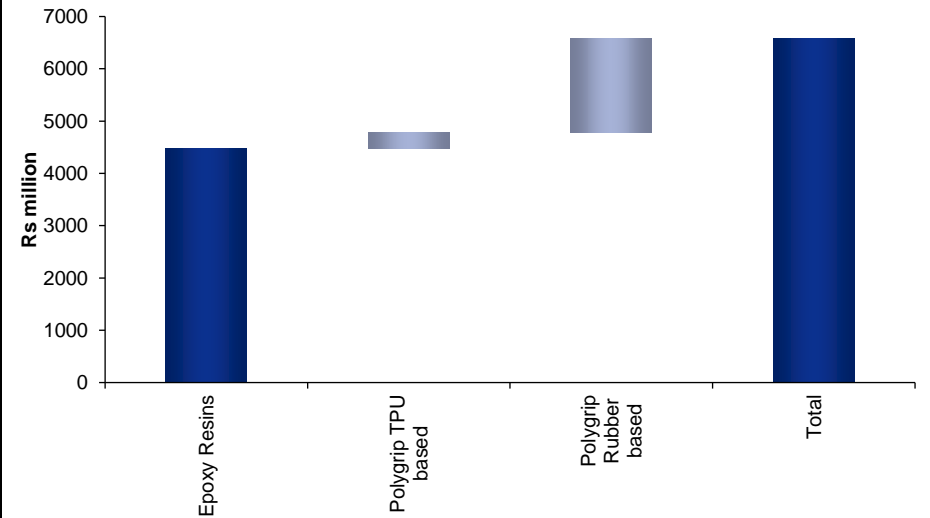
Figure 19: Polygrip rubber mirrors Polygrip TU spreads



SOURCE: COMPANY REPORTS, INCRED RESEARCH

Overall GFP from the epoxy group should be nearly Rs6.6bn ➤

Figure 20: Overall gross profits from epoxy resins and Polygrip compounds should be ~Rs 6.6 bn



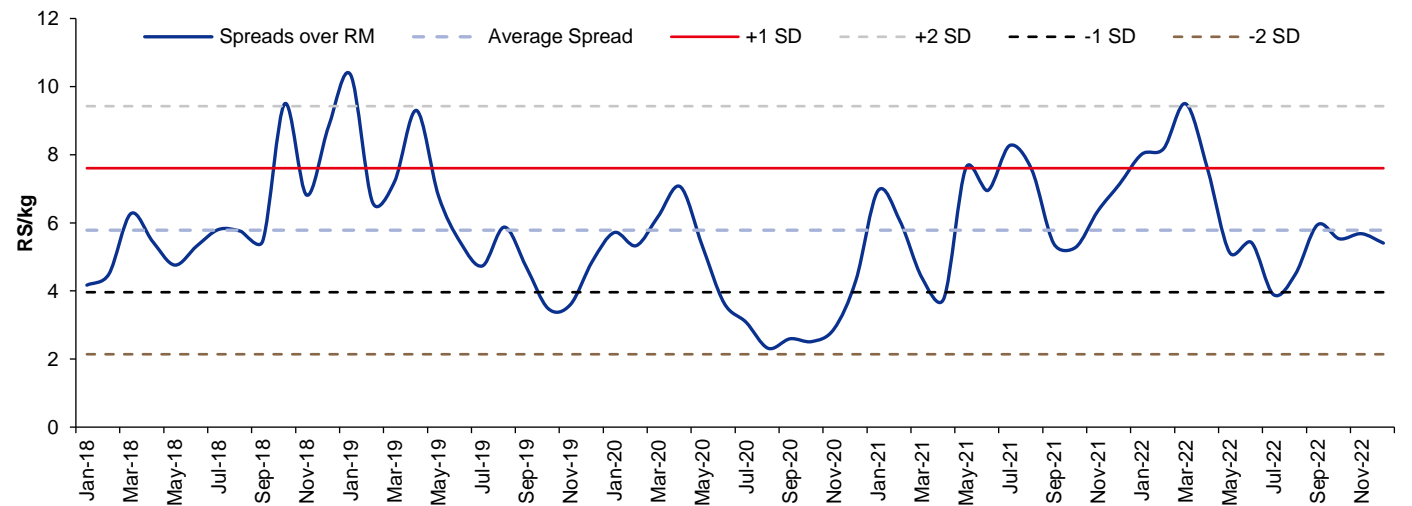
SOURCE: INCRED RESEARCH, COMPANY REPORTS

Other chemicals category is quite big and has multiple new chemicals

In the other chemicals category, the principal chemicals are formaldehyde (144kt), sodium thio sulphate(41kt), CMC (carboxy methyl cellulose, 24kt), mono chloro benzene (30kt), resorcinol (4.8kt), thionyl chloride (12kt), amino phenol (3kt), HCL (55kt), potassium chloride (9kt), sodium chloride (30kt) and other minor chemicals (100kt). In this section, we have analysed the spreads of all these chemicals and their gross profit in an average profitability scenario.

Formaldehyde is a base chemical and can add, at best, Rs 0.83bn to gross profit ➤

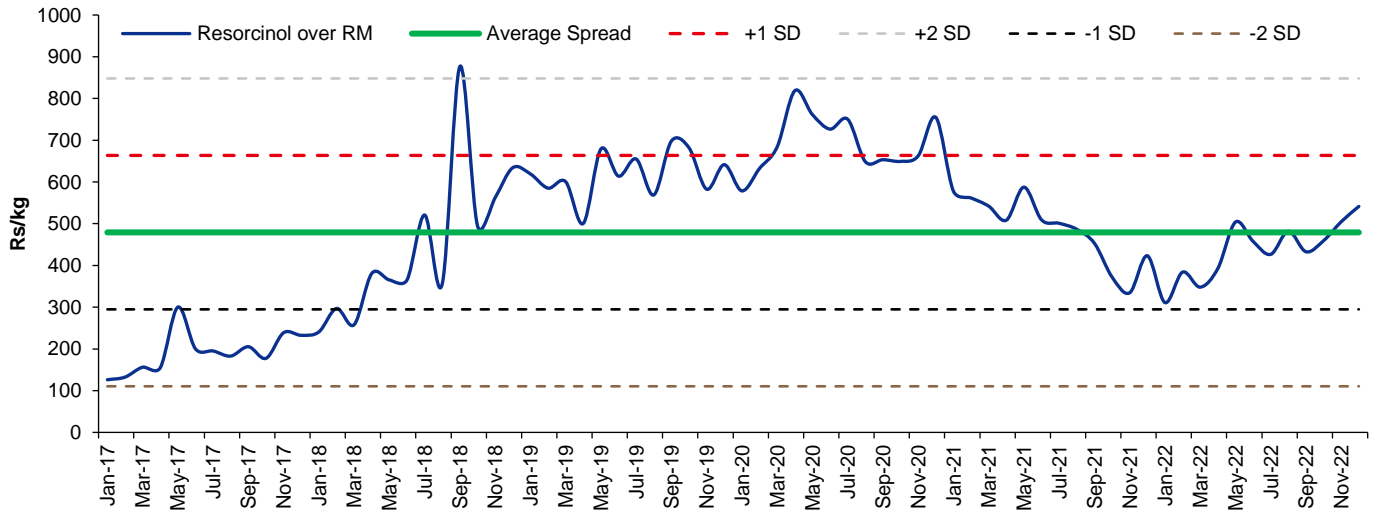
Figure 21: 144kt formaldehyde, in an average spreads scenario, can add Rs0.83bn to gross profit of the company



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Resorcinol can add, at best, Rs2.3bn to gross profit ▶

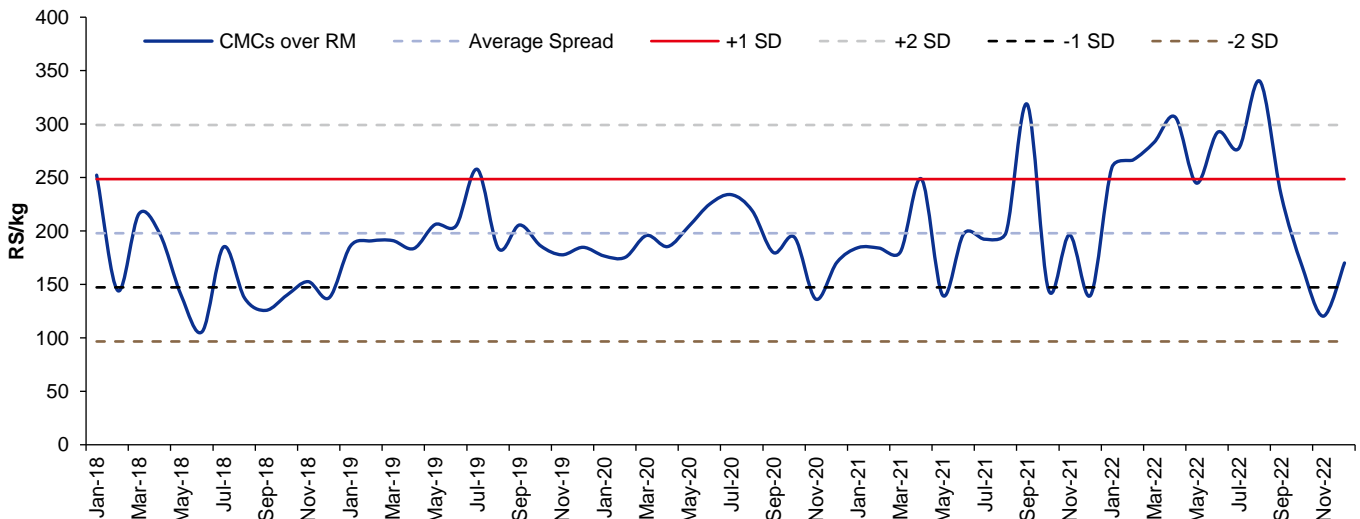
Figure 22: Average resorcinol spreads over raw material have been at Rs480/kg over the last six years and hence, for 4.8kt the likely gross profit will be ~ Rs2.3bn



SOURCE: INCRED RESEARCH, COMPANY REPORTS

CMC can add, at best, Rs4.7bn in gross profit▶

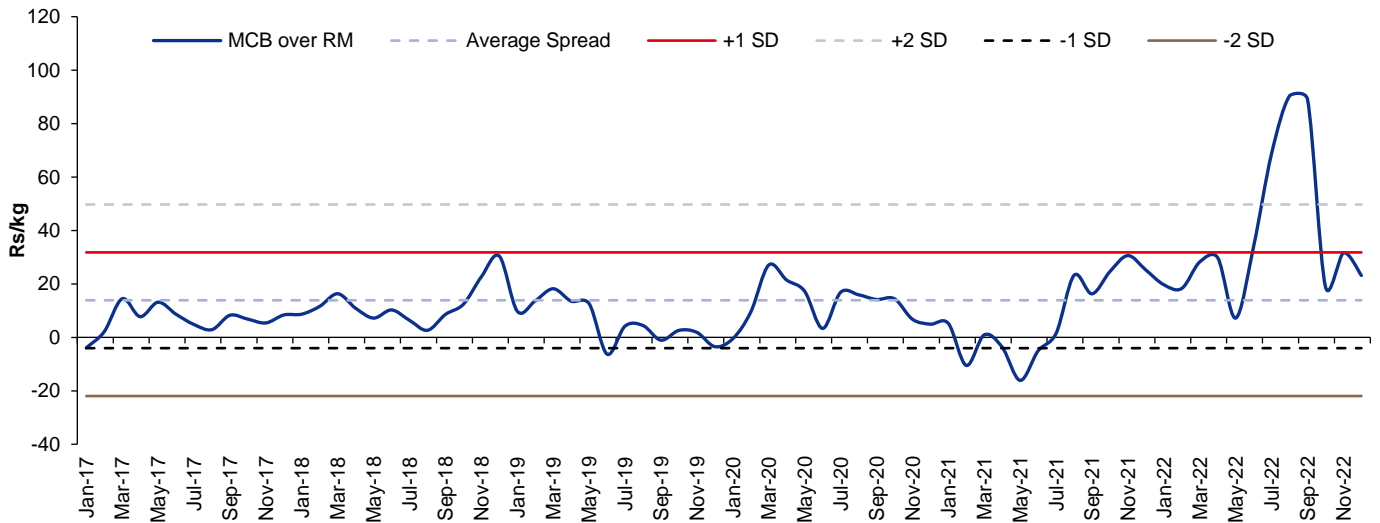
Figure 23: In a historical average gross spreads scenario, CMC can add Rs4.7bn to Atul's gross profit



SOURCE: INCRED RESEARCH, COMPANY REPORTS

MCB can add ~Rs0.40bn in gross profit ➤

Figure 24: MCB is a cheap commodity chemical and will be used most likely as an input material for agrochemicals but as we are taking agrochemicals spreads on market prices of input material, we have added MCB's gross profit in Atul's gross profit

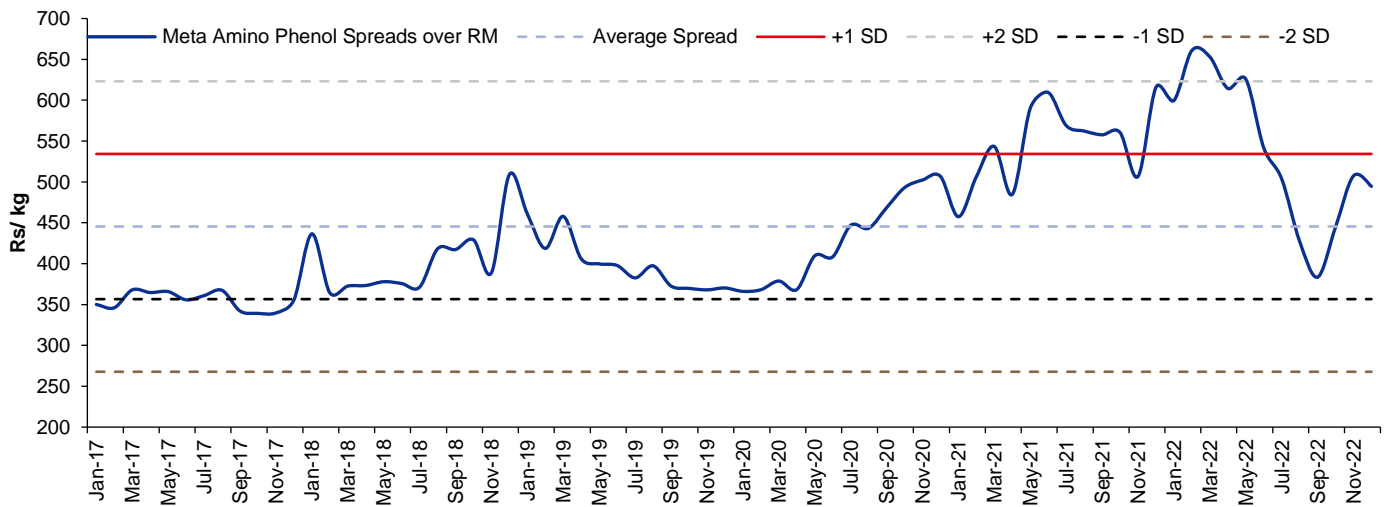


SOURCE: INCRED RESEARCH, COMPANY REPORTS

Meta amino phenol can add ~Rs1.3bn in gross profit ➤

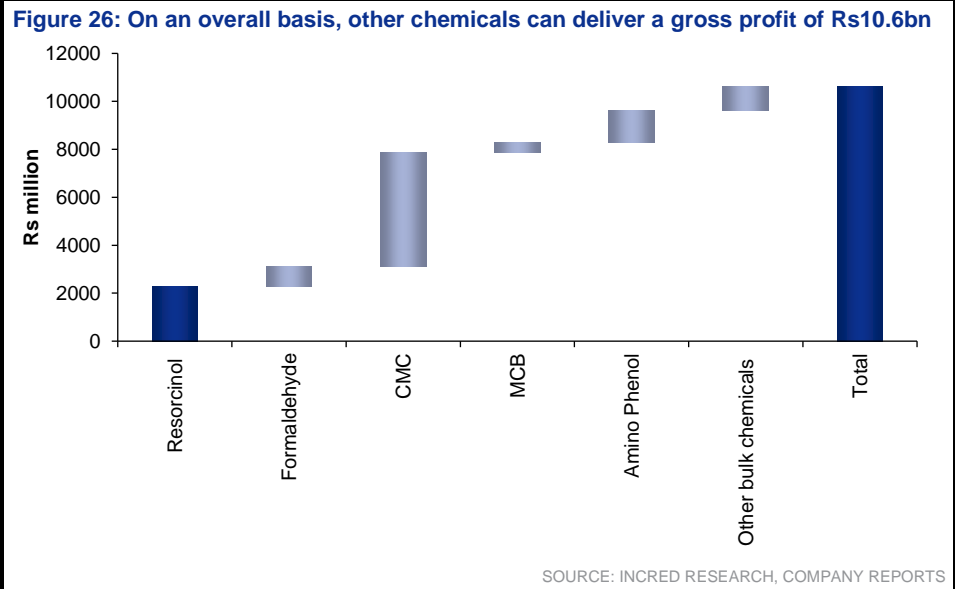
Meta amino phenol can add around Rs1.3bn to Atul's gross profit.

Figure 25: Meta amino phenol can add Rs1.3bn to gross profit



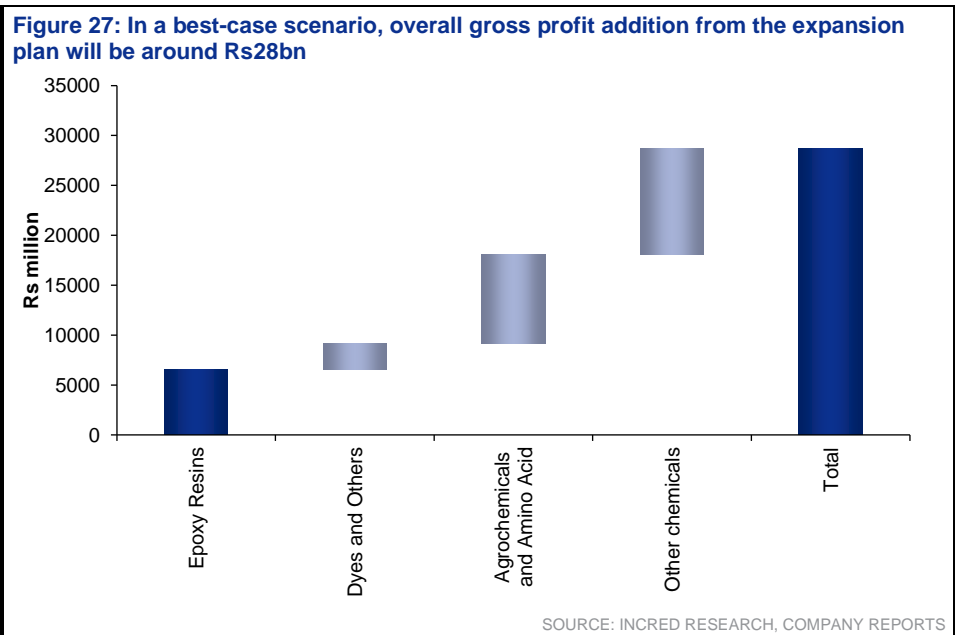
SOURCE: INCRED RESEARCH, COMPANY REPORTS

On an overall basis, these bulk chemicals will lead to a gross profit of Rs10.6bn ➤



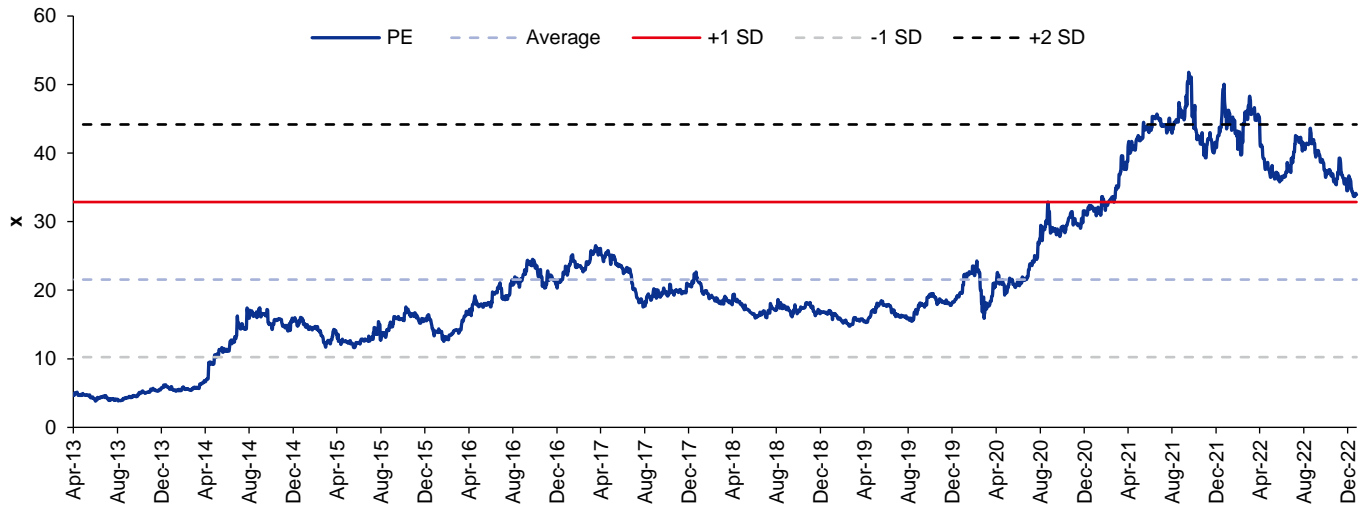
At 100% capacity utilization, the expansion can add Rs27bn to gross profit in a best-case scenario

The key part of the expansion is in epoxy resins and glycine amino acid. Atul has no prior experience of making amino acid. Its will be interesting to see how the company ramps up in this space.



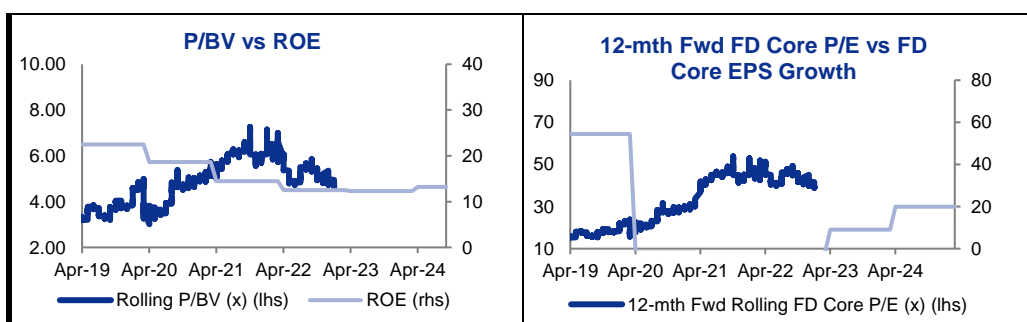
Valuation is too high and consensus EPS too lofty

Figure 28: Atul stock still trades at 33x one-year forward EPS, which is at a 60% premium to the long-term average P/E of 21.6; consensus EPS is too high and needs a massive cut



SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Net Revenues	37,315	50,809	56,906	65,442	75,258
Gross Profit	20,363	24,923	27,884	31,739	36,500
Operating EBITDA	9,171	9,114	9,576	10,731	12,792
Depreciation And Amortisation	(1,363)	(1,767)	(2,057)	(2,502)	(2,948)
Operating EBIT	7,808	7,348	7,519	8,229	9,844
Financial Income/(Expense)	(94)	(92)	(94)	(94)	(95)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	1,030	760	403	398	479
Profit Before Tax (pre-EI)	8,744	8,016	7,829	8,533	10,228
Exceptional Items					
Pre-tax Profit	8,744	8,016	7,829	8,533	10,228
Taxation	(2,217)	(2,050)	(1,973)	(2,150)	(2,577)
Exceptional Income - post-tax					
Profit After Tax	6,528	5,966	5,856	6,383	7,651
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	6,528	5,966	5,856	6,383	7,651
Recurring Net Profit	6,528	5,966	5,856	6,383	7,651
Fully Diluted Recurring Net Profit	6,528	5,966	5,856	6,383	7,651

Cash Flow

(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
EBITDA	9,171	9,114	9,576	10,731	12,792
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(245)	(5,046)	(1,462)	(2,047)	(2,354)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(826)	(579)			
Other Operating Cashflow	1,196	933	494	491	572
Net Interest (Paid)/Received	(94)	(92)	(94)	(94)	(95)
Tax Paid	(2,023)	(2,017)	(1,973)	(2,150)	(2,577)
Cashflow From Operations	7,180	2,315	6,541	6,931	8,338
Capex	(3,225)	(5,909)	(6,500)	(9,000)	(1,500)
Disposals Of FAs/subsidiaries	10	4			
Acq. Of Subsidiaries/investments	(3,958)	4,110			
Other Investing Cashflow	709	119			
Cash Flow From Investing	(6,464)	(1,677)	(6,500)	(9,000)	(1,500)
Debt Raised/(repaid)	182	114		1,500	
Proceeds From Issue Of Shares	(617)		1		1
Shares Repurchased					
Dividends Paid		(590)	(843)	(919)	(1,102)
Preferred Dividends					
Other Financing Cashflow	(87)	(99)	(94)	(94)	(94)
Cash Flow From Financing	(522)	(574)	(936)	487	(1,195)
Total Cash Generated	194	64	(895)	(1,582)	5,643
Free Cashflow To Equity	898	752	41	(569)	6,838
Free Cashflow To Firm	809	730	135	(1,975)	6,933

SOURCE: INCRED RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Total Cash And Equivalents	10,885	6,190	8,500	6,919	12,563
Total Debtors	7,332	9,890	11,077	12,738	14,649
Inventories	5,941	8,641	9,678	11,130	12,799
Total Other Current Assets	1,339	1,969	1,969	1,969	1,969
Total Current Assets	25,498	26,690	31,224	32,756	41,980
Fixed Assets	16,633	20,536	24,980	31,477	30,029
Total Investments	5,964	7,918	4,671	4,671	4,671
Intangible Assets	291	291	291	291	291
Total Other Non-Current Assets	676	1,627	1,627	1,627	1,627
Total Non-current Assets	23,564	30,374	31,569	38,067	36,619
Short-term Debt	35	773	773	773	773
Current Portion of Long-Term Debt					
Total Creditors	5,631	6,347	7,109	8,175	9,402
Other Current Liabilities	1,526	2,865	2,865	2,865	2,865
Total Current Liabilities	7,192	9,986	10,747	11,814	13,040
Total Long-term Debt	1,232	611	611	2,111	2,111
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	463	141	141	141	141
Total Non-current Liabilities	1,694	752	752	2,252	2,252
Total Provisions	1,604	1,728	1,728	1,728	1,728
Total Liabilities	10,490	12,465	13,227	15,793	17,019
Shareholders Equity	38,265	44,290	49,303	54,766	61,316
Minority Interests	306	309	264	264	265
Total Equity	38,572	44,598	49,566	55,030	61,580

Key Ratios					
	Mar-21A	Mar-22A	Mar-23F	Mar-24F	Mar-25F
Revenue Growth	(8.8%)	36.2%	12.0%	15.0%	15.0%
Operating EBITDA Growth	1.7%	(0.6%)	5.1%	12.1%	19.2%
Operating EBITDA Margin	24.6%	17.9%	16.8%	16.4%	17.0%
Net Cash Per Share (Rs)	325.05	161.93	239.77	135.96	326.12
BVPS (Rs)	1,293.18	1,492.24	1,661.14	1,845.21	2,065.89
Gross Interest Cover	83.51	80.13	79.99	87.54	103.62
Effective Tax Rate	25.3%	25.6%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	12.0%	12.0%	12.0%	12.0%	12.0%
Accounts Receivables Days	71.06	61.86	67.24	66.41	66.41
Inventory Days	118.15	102.81	115.20	112.68	112.68
Accounts Payables Days	112.05	84.45	84.62	82.76	82.76
ROIC (%)	24.6%	21.8%	16.7%	15.5%	15.3%
ROCE (%)	20.6%	16.6%	15.1%	14.7%	15.7%
Return On Average Assets	14.5%	11.4%	9.9%	9.7%	10.3%

SOURCE: INCRED RESEARCH, COMPANY REPORTS

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