

India

**REDUCE** (no change)

Consensus ratings\*: Buy 1 Hold 2 Sell 7

Current price:	Rs6,892
Target price:	Rs5,955
Previous target:	Rs6,370
Up/downside:	-13.6%
InCred Research / Consensus:	-5.2%
Reuters:	ATLP.NS
Bloomberg:	ATLP IN
Market cap:	US\$2,801m Rs203,415m
Average daily turnover:	US\$5.1m Rs372.2m
Current shares o/s:	29.6m
Free float:	54.9%

\*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	2.8	4.2	(24.5)
Relative (%)	4.5	(1.2)	(32.0)

Major shareholders	% held
Promoter & Promoter Group	45.1
DSP Investment Managers Pvt Ltd	4.7
Kotak Mahindra Asset Management Co	4.1

Analyst(s)



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# Atul Ltd

## FY24F PAT to fall; B/S leverage to rise

- The slowdown in India's textile exports and the global agrochemicals market is hitting Atul very hard.
- The company's expansion project may result in its balance sheet getting leveraged up for the first time in many years.
- Consensus EPS estimates are still too high. We expect a cut in consensus EPS estimates. Retain REDUCE rating on Atul with a lower TP of Rs5,955.

### Lower textile exports lead to headwinds for dyes and pigments

India's textile exports witnessed a remarkable surge in FY22, driven by supply chain filling. However, after this surge, textile exports encountered challenges, which had a negative impact on the demand for dyes, pigments, and various other products. Notably, the sales of VAT and Novatic dyes are closely intertwined with the performance of the textile sector. Atul Ltd or Atul's FY22 performance was bolstered by a strong showing in the domestic as well as export markets. However, after the FY22 peak, there has been a decline in both exports as well as domestic sales.

### Key products to witness demand slowdown

Amidst the backdrop of declining textile exports, Atul is bracing for a slowdown in product demand. This scenario impacts various products, such as VAT and Novatic dyes, both witnessing reduced sales because of lower textile exports. Additionally, the demand for 2,4 D, a crucial product of Atul, is also affected by the current slowdown in the agrochemical sector. The export volume of manganese sulphate, which is also used in textile applications, has also taken a hit. Cresol, another product in Atul's portfolio, shows a decline in export volume, pointing to the overall softness in demand. Similarly, 4,4'-diaminodiphenyl sulfone, a significant product of Atul, is grappling with global demand slowdown. The slowdown in demand for Atul product's is likely to continue, as the 1) global textile industry faces demand headwinds 2) Agrochemicals sector is witnessing a channel destocking and 3) general macroeconomic slowdown is hitting epoxy resins and other products

### Consensus earnings estimates need a cut; retain REDUCE rating

A cut is required in consensus estimates because of the slowdown in textile exports as well as global channel destocking affecting the demand for agrochemicals. At the same time, the ongoing expansion project leads to the possibility of leveraging Atul's balance sheet, a new development after several years. Assuming 100% capacity utilization, the expansion could contribute Rs27bn to gross profit, potentially resulting in a consolidated EPS of Rs340 in FY28F-29F. Atul trades at an expensive valuation as PE of stock is way above its historical mean. We value the stock at 30x one-year forward EPS, which is near to +0.7SD of long mean PE. We maintain our REDUCE rating on Atul, reducing our target price to Rs5,955 (from Rs6,370 earlier). Upside risk: Any recovery in global demand.

### Financial Summary

	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
Revenue (Rsm)	50,809	54,275	51,561	57,749	64,679
Operating EBITDA (Rsm)	9,114	7,749	8,234	9,642	11,399
Net Profit (Rsm)	5,966	5,028	4,517	5,235	6,550
Core EPS (Rs)	201.3	169.4	152.2	176.4	220.7
Core EPS Growth	(8.6%)	(15.8%)	(10.2%)	15.9%	25.1%
FD Core P/E (x)	34.24	40.68	45.29	39.07	31.23
DPS (Rs)	24.1	20.3	18.3	21.2	26.5
Dividend Yield	0.35%	0.29%	0.26%	0.31%	0.38%
EV/EBITDA (x)	21.05	25.31	23.80	20.31	16.86
P/FCFE (x)	271.65	119.93	34.48	29.27	43.87
Net Gearing	(10.8%)	(4.1%)	(5.8%)	(5.6%)	(11.3%)
P/BV (x)	4.62	4.38	4.04	3.72	3.37
ROE	14.5%	11.1%	9.3%	9.9%	11.3%
% Change In Core EPS Estimates			(0.29%)	(0.32%)	
InCred Research/Consensus EPS (x)					

SOURCE: INCRED RESEARCH, COMPANY REPORTS

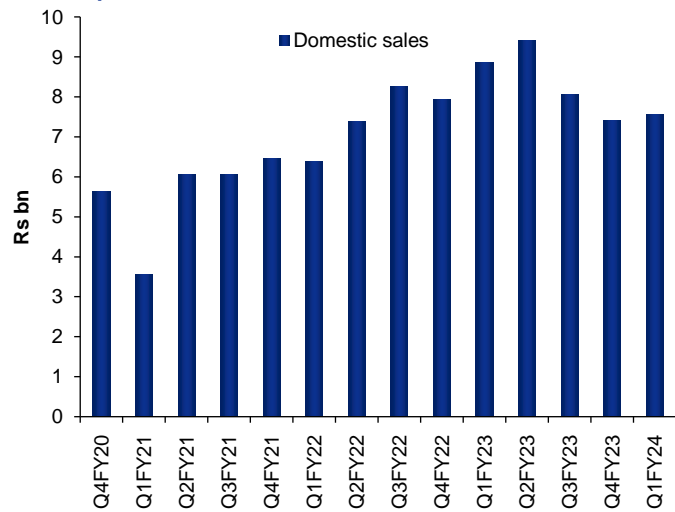
## FY24F PAT to fall; B/S leverage to rise

### Demand for the company's products to remain weak

Atul's FY22 performance was led by its strength in the domestic as well as export markets. While the export market has remained at the same level, domestic market sales have declined as textiles, its key customer segment, is facing a slowdown. Textile exports from India are going down, which has remained a key headwind for dyes and pigment sales, both locally as well as overseas.

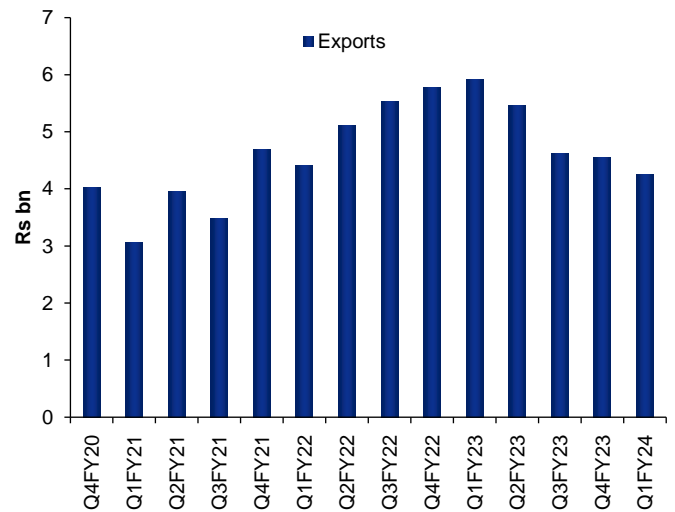
### Overall exports as well as domestic sales have declined from their FY22 peak >

Figure 1: Domestic sales have declined by 28% from the 1QFY23 peak



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 2: Similarly, exports have declined by 15%

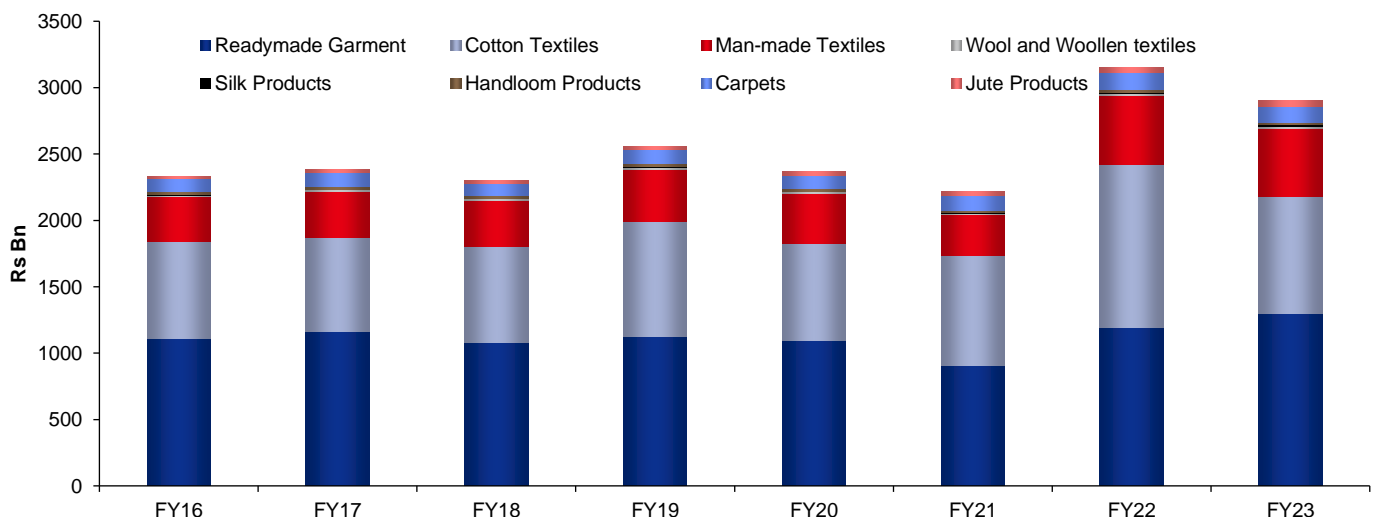


SOURCE: INCRED RESEARCH, COMPANY REPORTS

### Domestic as well as export sales performance is closely linked to overall textile exports from India >

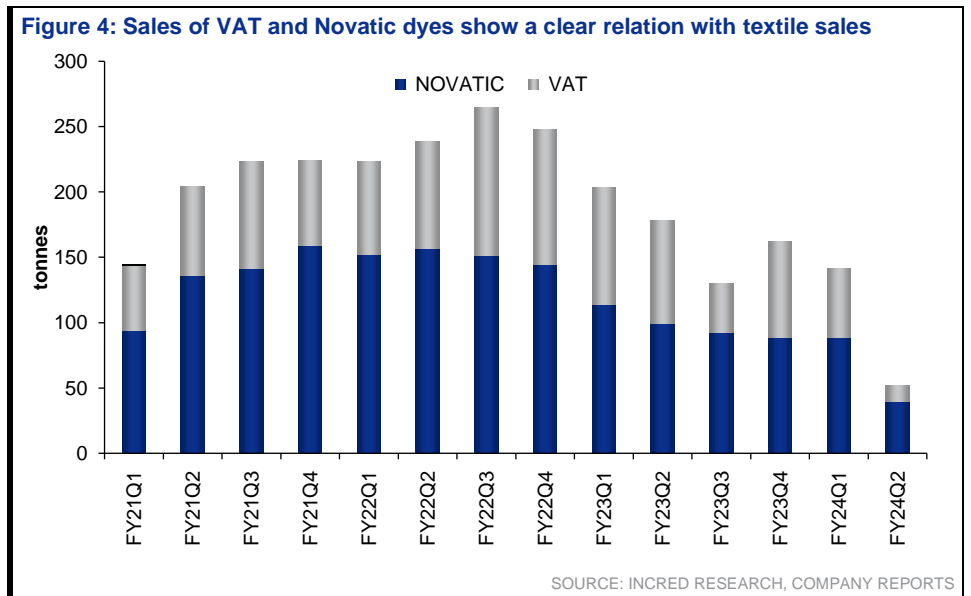
While supply chain-filling panic led to a huge increase in Indian textile exports, since then exports have taken a beating. This has resulted in lower sales of dyes, pigments, and other products of Atul Industries. The same is showing in the domestic sales numbers of Atul Limited or Atul.

Figure 3: The decline in Indian textile exports resulted in domestic sales slowdown for Atul



SOURCE: INCRED RESEARCH, COMPANY REPORTS

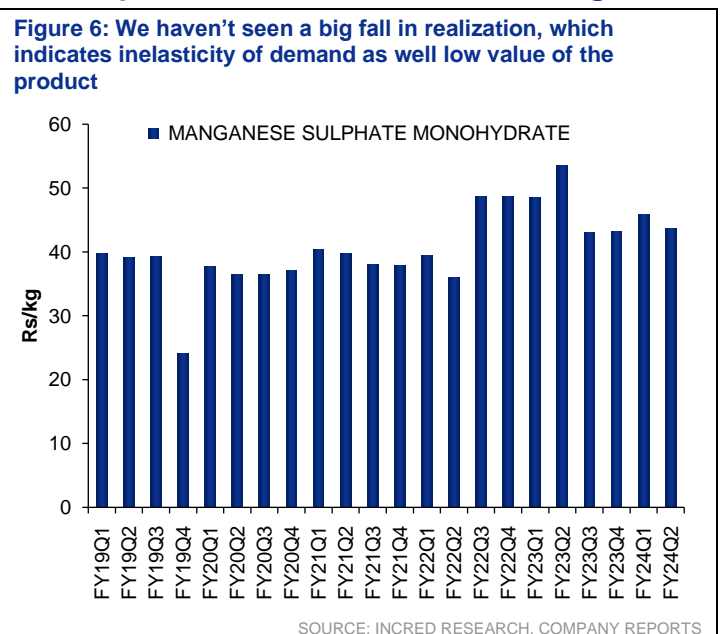
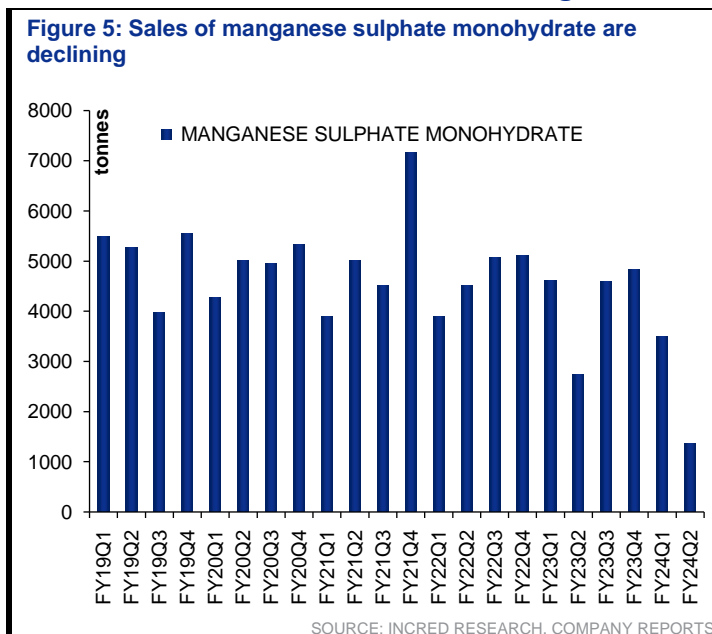
**Sales of VAT and Novatic dyes are directly linked to textiles, which are showing a downward trajectory ➤**



**Manganese sulphate is also used in textile applications ➤**

1. Manganese sulphate monohydrate is used as a fertilizer, as a mordant, and as a reagent in analytical chemistry.
2. As a fertilizer, manganese sulphate monohydrate is used to correct manganese deficiency in plants. Manganese is an essential micronutrient for plants, and its deficiency can lead to stunted growth, yellowing of the leaves, and poor yield. Manganese sulphate monohydrate is applied to the soil or foliage of plants.
3. As a mordant, manganese sulphate monohydrate is used to fix dyes to the fabric. A mordant is a substance that helps the dye to bind to the fabric. Manganese sulphate monohydrate is a good mordant for natural dyes, such as indigo and madder.
4. In analytical chemistry, manganese sulphate monohydrate is used as a reagent to test for the presence of other metals, such as iron and zinc. It is also used to standardize solutions of potassium permanganate.

**Manganese sulphate export volume has taken a beating ➤**



### Cresols have a wider usage ➤

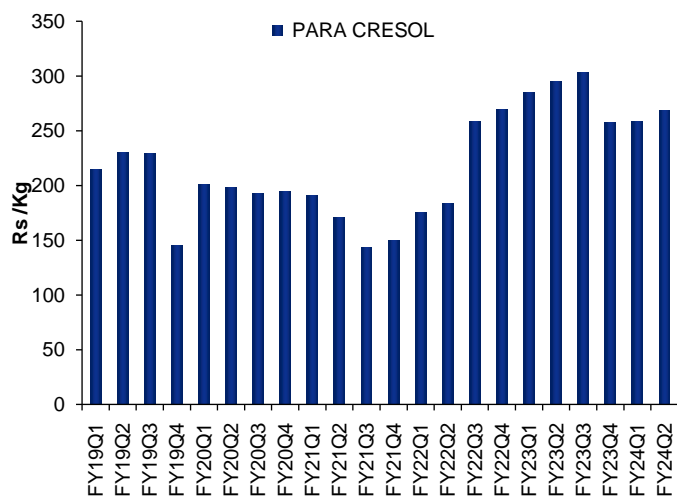
Para cresol, also known as 4-methylphenol, is a colourless solid with a phenolic odour. It is a derivative of phenol and an isomer of o-cresol and m-cresol.

Para cresol is a versatile compound with a wide range of uses. It is used in:

- Disinfectants and antiseptics:** Para cresol is a powerful disinfectant and antiseptic. It is used to kill bacteria, fungi, and viruses. Para cresol is found in a variety of products, including hand sanitizers, wound cleaners, and disinfectant wipes.
- Flavours and fragrances:** Para cresol has a strong, smoky odour. It is used in a variety of flavours and fragrances, including tobacco, vanilla, and coconut.
- Chemical intermediates:** Para cresol is used to produce a variety of other chemicals, including antioxidants, pharmaceuticals, and plastics.

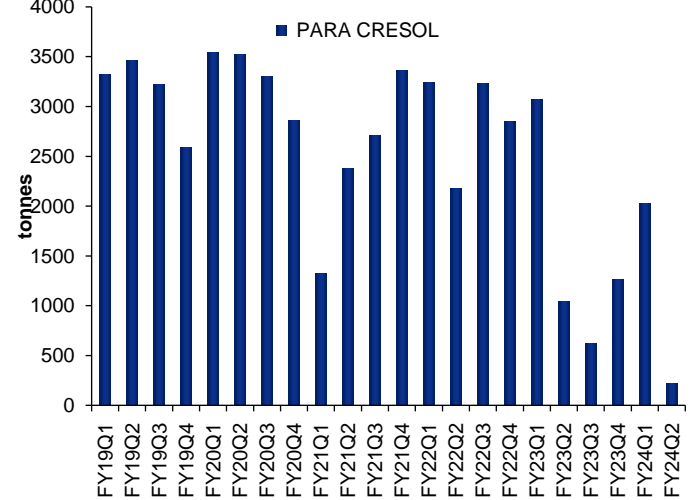
### Cresol export volume is on the decline, indicating overall softness in demand ➤

**Figure 7: Para cresol prices have not collapsed but fallen slightly**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

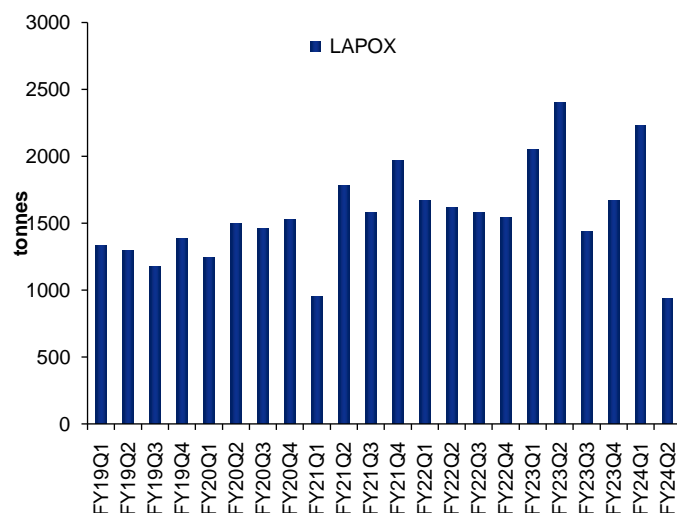
**Figure 8: However, export volume is way below the normal level**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

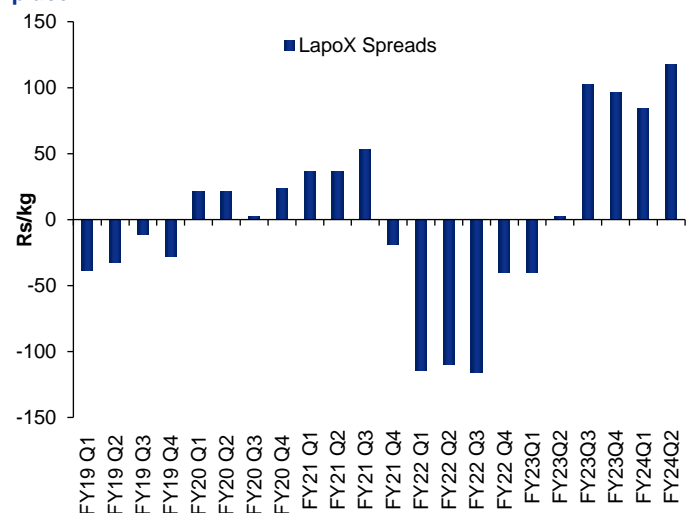
### Using exports as a proxy to overall demand, we haven't seen softness in epoxy resin demand, but its spreads are all over the place ➤

**Figure 9: Epoxy resin (LAPOX) demand has been stable**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

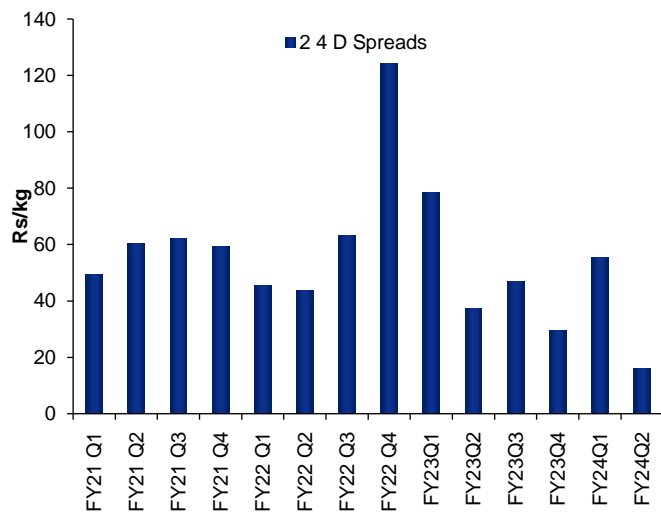
**Figure 10: However, the product's spreads are all over the place**



SOURCE: INCRED RESEARCH, COMPANY REPORTS

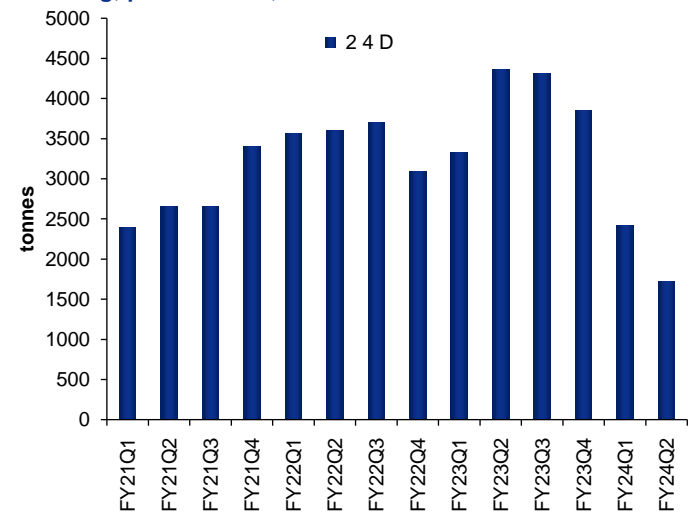
### 2,4 D is another important product of Atul that is suffering from demand slowdown ➤

Figure 11: 2,4 product spreads are falling...



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 12: ...as its demand (using exports as a proxy) is declining; please note 2,4 D is used as a herbicide



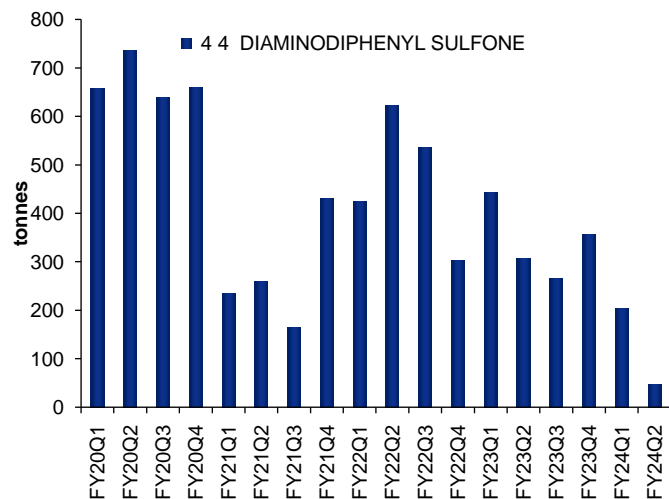
SOURCE: INCRED RESEARCH, COMPANY REPORTS

### 4,4'-diaminodiphenyl sulfone is another product of Atul that is suffering from demand slowdown ➤

4,4'-diaminodiphenyl sulfone (DDS) is a white, odourless, and tasteless powder that is soluble in water. DDS is a synthetic compound that is not found naturally. DDS is used in a variety of applications, including:

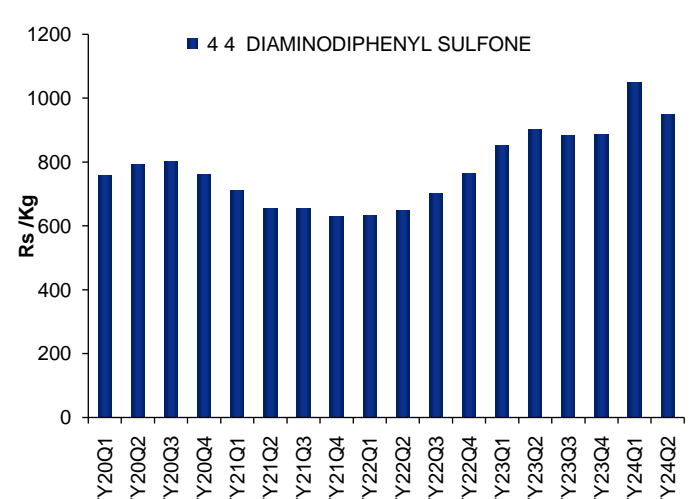
- Antibiotics:** DDS is used to treat a variety of bacterial infections, including leprosy, dermatitis herpetiformis, and pneumocystis pneumonia.
- Chemical intermediate:** DDS is used to produce a variety of other chemicals, including antioxidants, dyes, and plastics.
- Rubber vulcanization:** DDS is used to vulcanize rubber, which is a process that makes rubber more durable and resistant to heat and chemicals.
- Epoxy resin-curing agent:** DDS is used to cure epoxy resins, which are used to make a variety of products, such as adhesives, coatings, and composites.
- Polysulfone synthesis:** DDS is used to synthesize polysulfone, which is a type of polymer that is used to make a variety of products, such as food packaging, medical devices, and electrical components.

Figure 13: Demand (using export as a proxy) appears to be under stress



SOURCE: INCRED RESEARCH, COMPANY REPORTS

Figure 14: However, the pricing is still fine

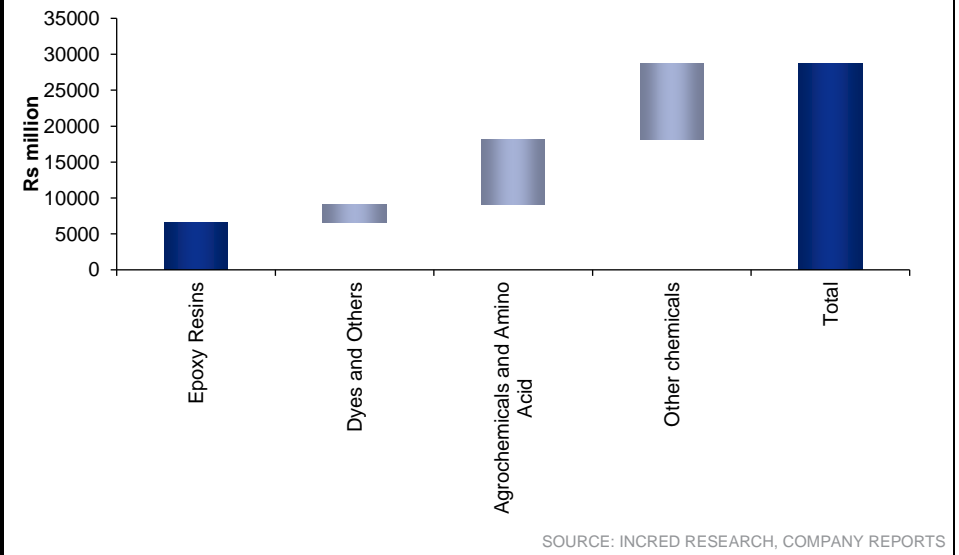


SOURCE: INCRED RESEARCH, COMPANY REPORTS

**At 100% capacity utilization, the company’s expansion project can add Rs27bn to its gross profit in a best-case scenario, leading to a consolidated EPS of Rs340 in FY28F-29F ➤**

The key part of the expansion is in epoxy resins and glycine amino acid. Atul has no prior experience of making amino acid. It will be interesting to see how the company ramps up in this space. Here is a detailed note on the same: [IN: Atul Ltd - Deep dive into expansion project - REDUCE \(REDUCE - Maintained\)](#)

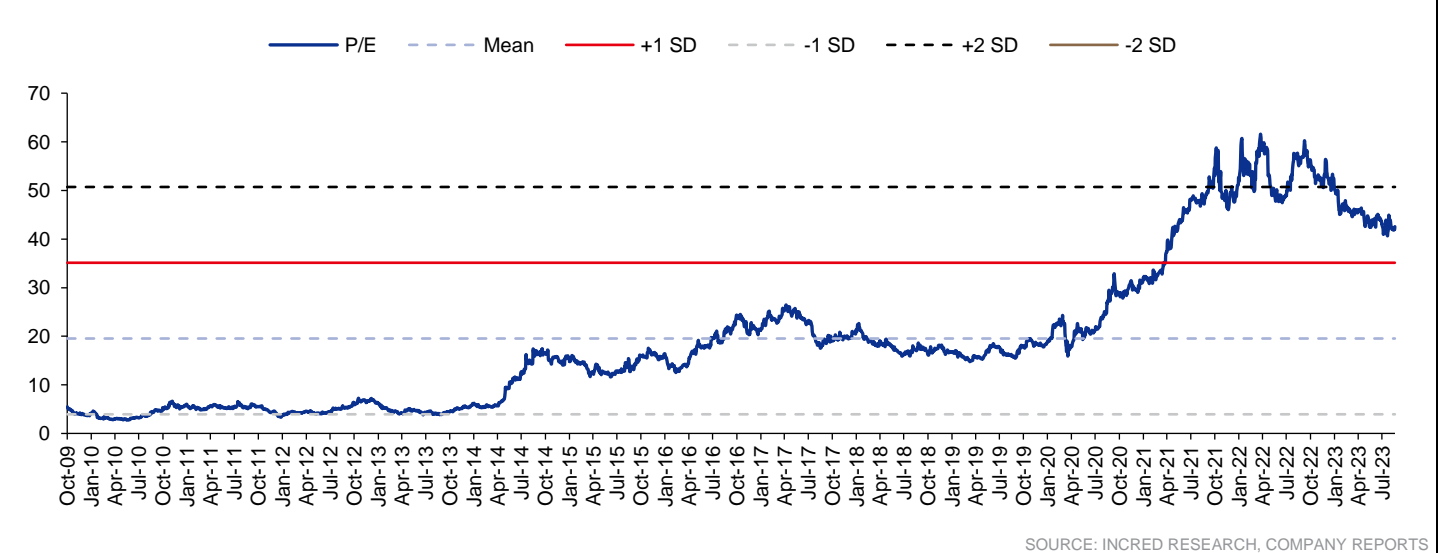
**Figure 15: In a best-case scenario, overall gross profit addition from the expansion plan will be around Rs28bn**



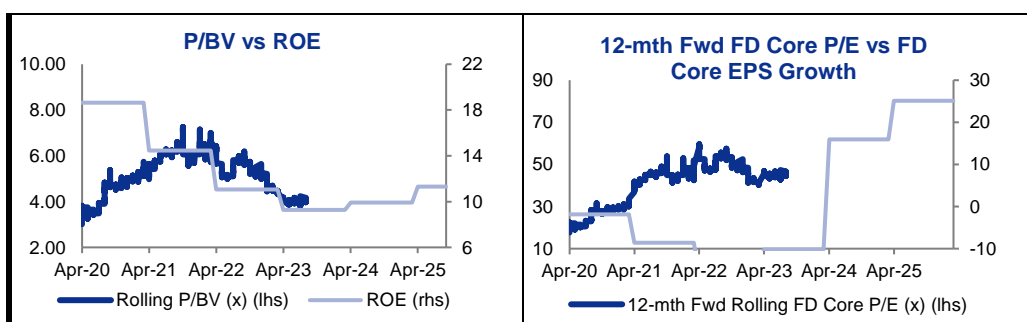
Hence, in a best-case scenario, assuming all expansion projects come on stream and operate at 100% capacity utilization, the EPS in FY28F-29F can be Rs340.

**Atul still trades at a lofty valuation ➤**

**Figure 16: Atul still trades way above its historical mean valuation; we value Atul at 30x one-year forward EPS to arrive at our lower target price of Rs5,955**



BY THE NUMBERS



Profit & Loss

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>Total Net Revenues</b>	<b>50,809</b>	<b>54,275</b>	<b>51,561</b>	<b>57,749</b>	<b>64,679</b>
<b>Gross Profit</b>	<b>24,923</b>	<b>25,635</b>	<b>24,234</b>	<b>27,142</b>	<b>30,399</b>
<b>Operating EBITDA</b>	<b>9,114</b>	<b>7,749</b>	<b>8,234</b>	<b>9,642</b>	<b>11,399</b>
Depreciation And Amortisation	(1,767)	(1,978)	(2,502)	(2,948)	(2,948)
<b>Operating EBIT</b>	<b>7,348</b>	<b>5,770</b>	<b>5,732</b>	<b>6,694</b>	<b>8,451</b>
Financial Income/(Expense)	(92)	(79)	(94)	(95)	(95)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	760	1,149	400	400	400
<b>Profit Before Tax (pre-EI)</b>	<b>8,016</b>	<b>6,840</b>	<b>6,038</b>	<b>6,999</b>	<b>8,756</b>
Exceptional Items					
<b>Pre-tax Profit</b>	<b>8,016</b>	<b>6,840</b>	<b>6,038</b>	<b>6,999</b>	<b>8,756</b>
Taxation	(2,050)	(1,812)	(1,521)	(1,763)	(2,206)
Exceptional Income - post-tax					
<b>Profit After Tax</b>	<b>5,966</b>	<b>5,028</b>	<b>4,517</b>	<b>5,235</b>	<b>6,550</b>
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
<b>Net Profit</b>	<b>5,966</b>	<b>5,028</b>	<b>4,517</b>	<b>5,235</b>	<b>6,550</b>
Recurring Net Profit	5,966	5,028	4,517	5,235	6,550
<b>Fully Diluted Recurring Net Profit</b>	<b>5,966</b>	<b>5,028</b>	<b>4,517</b>	<b>5,235</b>	<b>6,550</b>

Cash Flow

(Rs mn)	Mar-22A	Mar-23A	Mar-24F	Mar-25F	Mar-26F
<b>EBITDA</b>	<b>9,114</b>	<b>7,749</b>	<b>8,234</b>	<b>9,642</b>	<b>11,399</b>
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(5,046)	271	2,337	(788)	(2,257)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(579)	(205)			
Other Operating Cashflow	933	1,266	478	493	494
Net Interest (Paid)/Received	(92)	(79)	(94)	(95)	(95)
Tax Paid	(2,017)	(1,934)	(1,521)	(1,763)	(2,206)
<b>Cashflow From Operations</b>	<b>2,315</b>	<b>7,067</b>	<b>9,434</b>	<b>7,488</b>	<b>7,335</b>
Capex	(5,909)	(8,747)	(8,500)	(6,500)	(2,672)
Disposals Of FAs/subsidiaries	4	8			
Acq. Of Subsidiaries/investments	4,110	3,850			
Other Investing Cashflow	119	196			
<b>Cash Flow From Investing</b>	<b>(1,677)</b>	<b>(4,694)</b>	<b>(8,500)</b>	<b>(6,500)</b>	<b>(2,672)</b>
Debt Raised/(repaid)	114	(668)	5,000	6,000	
Proceeds From Issue Of Shares			2		
Shares Repurchased					
Dividends Paid	(590)	(961)	(650)	(754)	(943)
Preferred Dividends					
Other Financing Cashflow	(99)	(946)	(94)	(95)	(95)
<b>Cash Flow From Financing</b>	<b>(574)</b>	<b>(2,575)</b>	<b>4,258</b>	<b>5,151</b>	<b>(1,038)</b>
Total Cash Generated	64	(202)	5,191	6,139	3,625
<b>Free Cashflow To Equity</b>	<b>752</b>	<b>1,706</b>	<b>5,934</b>	<b>6,988</b>	<b>4,663</b>
<b>Free Cashflow To Firm</b>	<b>730</b>	<b>2,452</b>	<b>1,027</b>	<b>1,083</b>	<b>4,758</b>

SOURCE: INCRED RESEARCH, COMPANY REPORTS

**BY THE NUMBERS...cont'd**

<b>Balance Sheet</b>					
<b>(Rs mn)</b>	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Total Cash And Equivalents	6,190	2,416	8,430	14,573	18,369
Total Debtors	9,890	8,446	8,024	8,987	10,065
Inventories	8,641	7,894	8,769	9,821	11,000
Total Other Current Assets	1,969	2,154	2,154	2,154	2,154
<b>Total Current Assets</b>	<b>26,690</b>	<b>20,910</b>	<b>27,377</b>	<b>35,535</b>	<b>41,588</b>
Fixed Assets	20,536	27,702	33,700	37,252	36,975
Total Investments	7,918	6,946	5,964	5,964	5,964
Intangible Assets	291	291	291	291	291
Total Other Non-Current Assets	1,627	1,831	1,831	1,831	1,831
<b>Total Non-current Assets</b>	<b>30,374</b>	<b>36,770</b>	<b>41,787</b>	<b>45,339</b>	<b>45,062</b>
Short-term Debt	773	183	183	183	183
Current Portion of Long-Term Debt					
Total Creditors	6,347	5,385	8,175	9,402	9,402
Other Current Liabilities	2,865	2,835	2,835	2,835	2,835
<b>Total Current Liabilities</b>	<b>9,986</b>	<b>8,402</b>	<b>11,192</b>	<b>12,419</b>	<b>12,419</b>
Total Long-term Debt	611	287	5,287	11,287	11,287
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	141	133	133	133	133
<b>Total Non-current Liabilities</b>	<b>752</b>	<b>420</b>	<b>5,420</b>	<b>11,420</b>	<b>11,420</b>
Total Provisions	1,728	1,663	1,663	1,663	1,663
<b>Total Liabilities</b>	<b>12,465</b>	<b>10,486</b>	<b>18,276</b>	<b>25,503</b>	<b>25,503</b>
Shareholders Equity	44,290	46,714	50,581	55,062	60,667
Minority Interests	309	480	306	309	480
<b>Total Equity</b>	<b>44,598</b>	<b>47,194</b>	<b>50,888</b>	<b>55,370</b>	<b>61,147</b>

<b>Key Ratios</b>					
	<b>Mar-22A</b>	<b>Mar-23A</b>	<b>Mar-24F</b>	<b>Mar-25F</b>	<b>Mar-26F</b>
Revenue Growth	36.2%	6.8%	(5.0%)	12.0%	12.0%
Operating EBITDA Growth	(0.6%)	(15.0%)	6.3%	17.1%	18.2%
Operating EBITDA Margin	17.9%	14.3%	16.0%	16.7%	17.6%
Net Cash Per Share (Rs)	161.93	65.57	99.74	104.55	232.44
BVPS (Rs)	1,492.24	1,573.92	1,704.23	1,855.18	2,044.03
Gross Interest Cover	80.13	73.04	61.30	70.46	88.96
Effective Tax Rate	25.6%	26.5%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio	12.0%	12.0%	12.0%	12.0%	12.0%
Accounts Receivables Days	61.86	61.66	58.29	53.76	53.76
Inventory Days	102.81	105.36	111.28	110.85	110.85
Accounts Payables Days	84.45	74.76	90.56	104.81	100.11
ROIC (%)	21.8%	12.6%	10.7%	11.4%	13.1%
ROCE (%)	16.6%	12.0%	10.7%	10.6%	11.9%
Return On Average Assets	11.4%	8.9%	7.2%	7.1%	7.9%

SOURCE: INCRED RESEARCH, COMPANY REPORTS



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