

India

REDUCE *(Initiating coverage)*

Consensus ratings*: Buy 7 Hold 2 Sell 1

Current price:	Rs7,749
Target price:	Rs6,370
Previous target:	NA
Up/downside:	-17.8%
EIP Research / Consensus:	-7.7%

Reuters:	
Bloomberg:	ATLP IN
Market cap:	US\$3,055m Rs2,29,270m
Average daily turnover:	US\$2.8m Rs213.8m
Current shares o/s:	29.7m
Free float:	55.2%

*Source: Bloomberg



Source: Bloomberg

Price performance	1M	3M	12M
Absolute (%)	14.2	17.2	84.4
Relative (%)	19.5	19.7	16.6

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

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Atul Ltd

Earnings disappointment looks imminent

- We forecast EPS growth of 13.7% CAGR over FY21F-24F. We expect revenue growth to jump to 22% in FY22F and to 12% CAGR over FY21-24F.
- Rising raw material cost to hit gross margins in FY22F. We forecast gross margin to contract by 400bp in FY22F.
- We value the stock at 25x FY23F EPS, +1SD of long-term mean, to arrive at TP of Rs6,370. We initiate coverage on Atul with a Reduce rating.

Consensus PAT estimates too high, disappointment likely

Atul is an integrated chemical company which manufactures about 1,350 products and formulations. The company's key segments are 1) Aromatics (30% of FY19 sales), Polymers (28% of FY19 sales), 3) Crop Protection Chemicals ([CPC] 17% FY19 sales, 4) Colours and Dyes (14% for FY19) and 5) bulk chemicals and other 10% of sales. The company's FY10-20 EPS CAGR was 28%, but 13.7% CAGR for FY21-24F in our view. We expect sales to grow at 22% in FY22F, but it will likely taper to 12% in FY23/24F. We estimate the company's gross profit margins will fall by 400bp from FY22F, and consequently our earnings (PAT) estimate for FY22F/FY23F are at least 12% below Bloomberg consensus, in our view. With earnings disappointment looking imminent, we initiate coverage on the stock with a Reduce rating and TP of Rs6,370.

Raw material costs are rising, gross margins to fall

ECH (epichlorohydrin), BIS Phenol-A (BPA) and phenol are the most important raw materials (RM) for Atul Limited. Atul imports almost all its ECH and BPA requirements. ECH is manufactured using propylene, while BPA and phenol have benzene as the base raw material. The prices of crude oil, the basic ingredient for all three chemicals, rose by 50% on average over CY20. Consequently, in the first couple of months of 4QFY21, BPA prices rose by 80% and ECH by 20% (Source: Corpiness Global Private Limited, an exports data provider) over 3QFY21. At the same time, prices for products like Lapox rose 5%, Para Cresol 1.8%, VAT by 8.4%, while Novatic fell by 6.8% qoq (Feb 2021), which is not sufficient to cover the rise in the cost of raw materials. We believe gross margins, hence EBITDA margins, will start declining from 4QFY21F, although a larger impact will be felt in 1QFY22F.

Valuation and risks

We value Atul at 25x FY23F EPS, which is +1SD of long-term mean P/E and at a 15% discount to its peers, to arrive at our Rs6,370 TP. We value Atul at a discount to its peers because although the RoEs are similar EPS growth at 13.7% CAGR for FY21-24F is lower than the peer average (which is higher than 15%). Our PAT estimates are 12% below Bloomberg consensus estimates (FY23F) and, hence, we believe an EPS disappointment is likely. Key risks are any sudden correction in raw materials will maintain gross margins, hence, EPS could be higher than our estimate. Despite poor earnings growth, the stock can keep re-rating if global liquidity persists.

Financial Summary

	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue (Rsm)	40,378	40,931	36,921	44,860	50,143
Operating EBITDA (Rsm)	7,668	9,020	8,677	9,670	11,062
Net Profit (Rsm)	4,310	6,659	6,103	6,476	7,564
Core EPS (Rs)	145.2	224.4	205.6	218.2	254.8
Core EPS Growth	55.6%	54.5%	(8.4%)	6.1%	16.8%
FD Core P/E (x)	53.36	34.54	37.68	35.51	30.41
DPS (Rs)	0.0	27.5	24.7	26.2	30.6
Dividend Yield	0.00%	0.35%	0.32%	0.34%	0.39%
EV/EBITDA (x)	29.07	24.38	24.79	21.84	18.59
P/FCFE (x)	657.68	153.92	40.03	46.59	34.25
Net Gearing	(7.5%)	(17.7%)	(28.0%)	(33.5%)	(40.3%)
P/BV (x)	8.40	7.22	6.21	5.40	4.69
ROE	17.2%	22.5%	17.7%	16.3%	16.5%
% Change In Core EPS Estimates					
EIP Research/Consensus EPS (x)			0.96	0.88	0.89

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS, PRICED AS AT 13 APR 2021

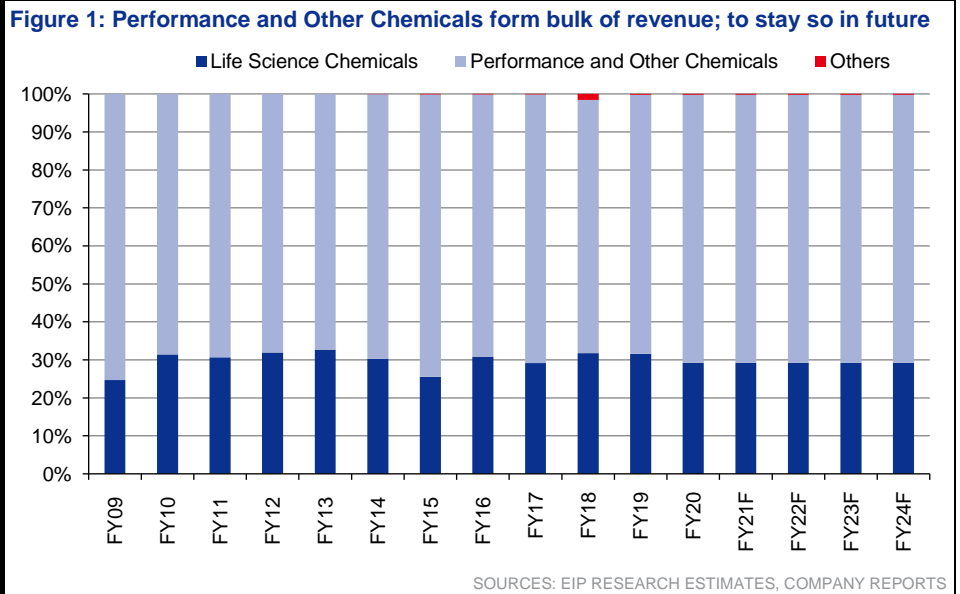
Earnings disappointment looks imminent

Atul Ltd is an integrated chemical company with about 4,000 customers across 30 industries worldwide. The company has subsidiaries in the US (established in 1994), the UK (1996), China (2004), Brazil (2012) and the UAE (2015). Atul manages almost all processes and operations to manufacture about 1,350 products and formulations. The company has successfully established joint venture companies with global leaders in the chemical space.

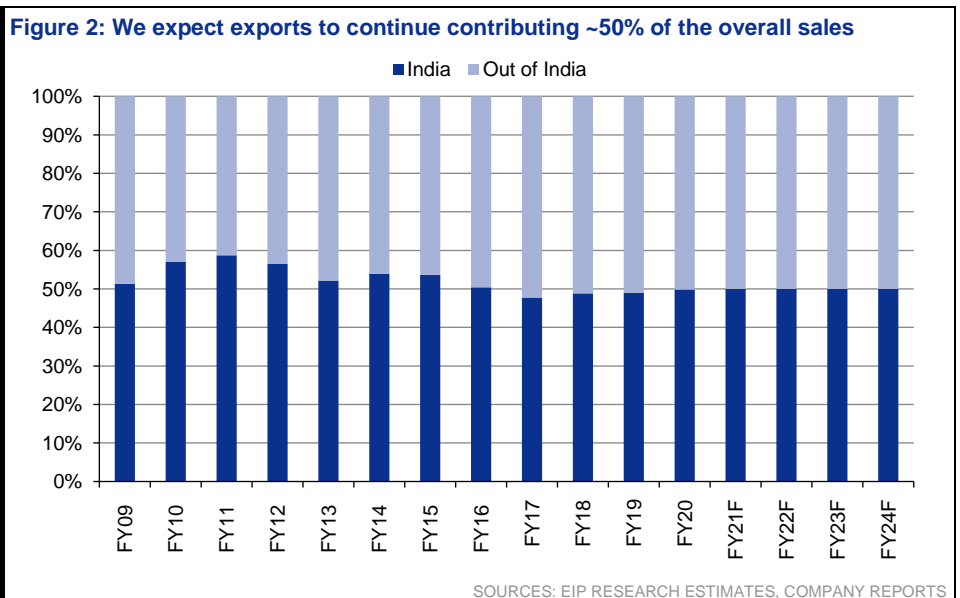
Product analysis

Almost 75% of Atul's revenue (FY17-20) comes from three segments Aromatics (28%), CPC (19%) and Polymers (18%). In Aromatics, the company is a leader in cresols (in value terms FY21, Source: Company Presentation) 2,4-D is Atul's star product in the CPC segment and manufactures a variety of epoxy resins in polymers.

Atul has two business segments ➤

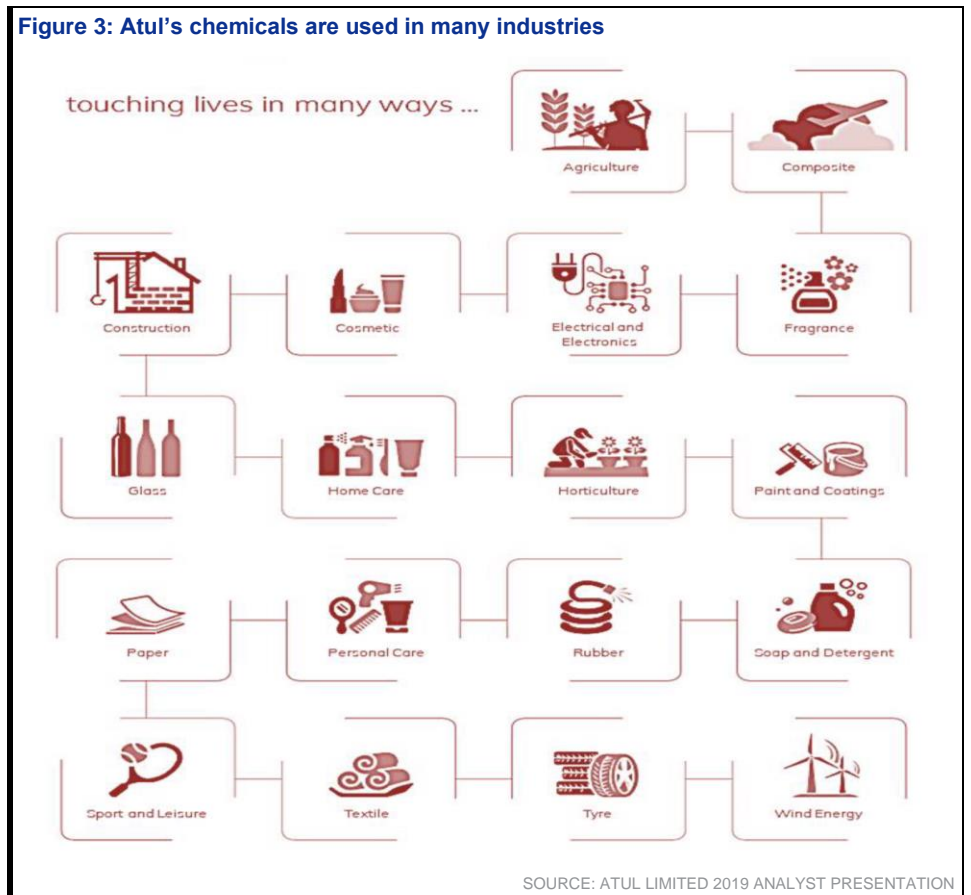


Domestic and exports segments contributed 50% revenue each in FY20 and likely to remain so over FY21F-FY24F ➤



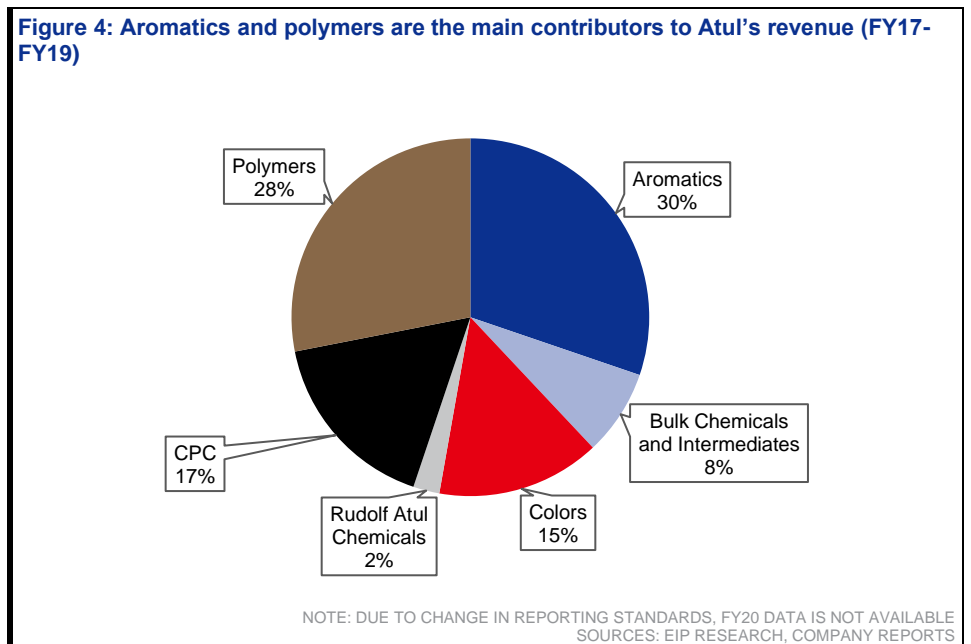
Atul produces over 900 chemicals ➤

Figure 3: Atul's chemicals are used in many industries



Based on FY17-FY19 data, we assume Atul's revenue mix will be the same now ➤

Figure 4: Aromatics and polymers are the main contributors to Atul's revenue (FY17-FY19)



Polymers, CPC and Aromatics accounted for 75% of overall revenue in FY19 ➤

Figure 5: Polymers, CPC and Aromatics grew at 18%, 28% and 17% CAGR, respectively, over FY17-19

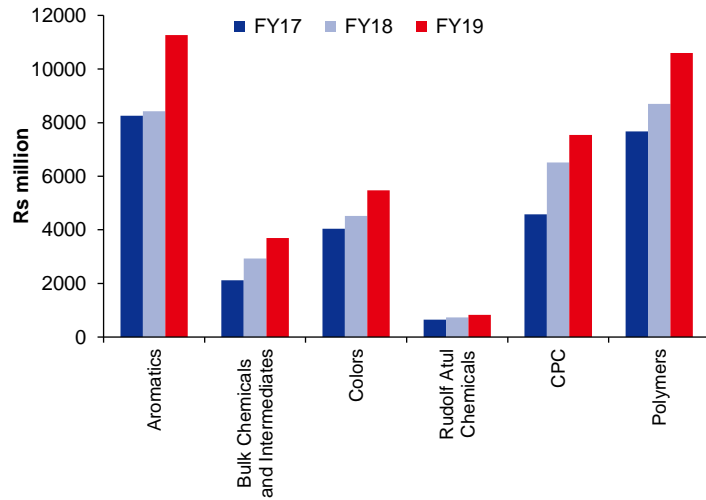
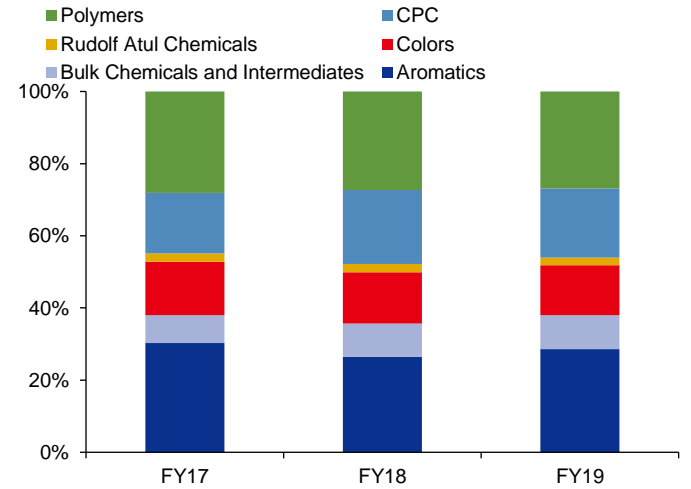


Figure 6: Polymers, CPC and Aromatics formed ~75% of overall sales in FY17-19



NOTE: DUE TO CHANGE IN REPORTING STANDARDS, FY20 DATA IS NOT AVAILABLE
SOURCES: EIP RESEARCH, ATUL LIMITED 2019 ANALYST PRESENTATION

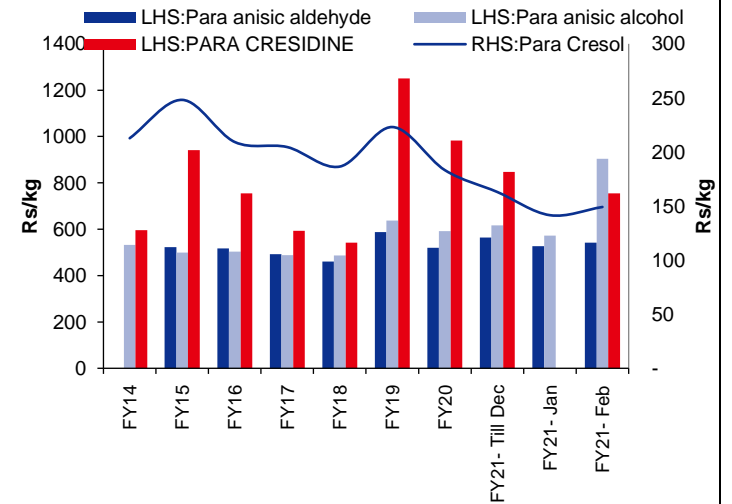
NOTE: DUE TO CHANGE IN REPORTING STANDARDS, FY20 DATA IS NOT AVAILABLE
SOURCES: EIP RESEARCH, ATUL LIMITED 2019 ANALYST PRESENTATION

In Aromatics, para cresol (*p*-Cresol), para anisic aldehyde (*p*-AA), para anisic alcohol (*p*-AAI) and para cresidine (*p*-Cd) are the main molecules ➤

Figure 7: Atul is a global leader in *p*-Cresol, *p*-AA, *p*-AAI & *p*-Cd

Product	Market share (2018-19)	Competition
<i>p</i> -Cresol (P&OC)	42%	Asia (4) North America (1)
<i>p</i> -Cd (P&OC)	20%	Asia (3)
<i>p</i> -AA (LSC)	75%	India (2) Asia (1) Europe (1)
<i>p</i> -AAI (LSC)	95%	India (2)

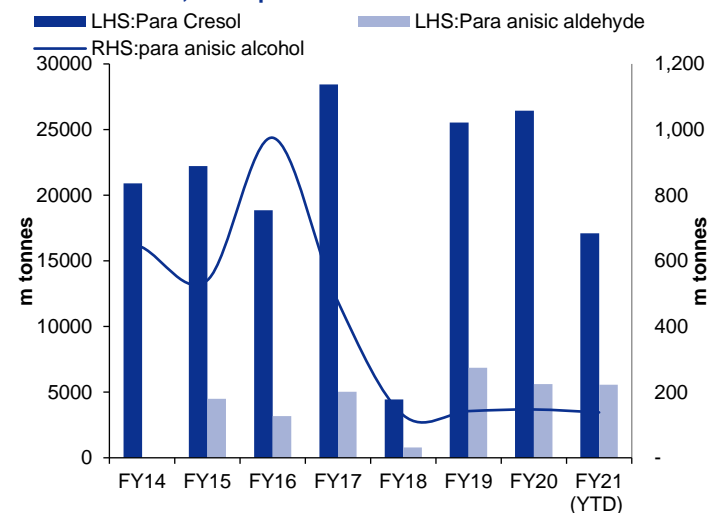
Figure 8: Realisations are stable for all these molecules



SOURCES: EIP RESEARCH, ATUL LIMITED 2019 ANALYST PRESENTATION

SOURCES: EIP RESEARCH, CORPINNESS GLOBAL PRIVATE LIMITED

Figure 9: Para cresol and para anisic aldehyde volumes have remained stable, while para anisic alcohol volumes have fallen



SOURCES: EIP RESEARCH, COMPANY REPORTS

Figure 10: Though the company appears very bullish on the space, as indicated by its presentation, we have not seen strong growth in the last 7 years

Opportunity landscape

	Additives	Fragrance	Personal care
World, \$ bn	3.2	13	24
CAGR	2%	4%	4%
India, \$ mn	26	485	570
CAGR	3%	5%	5%

SOURCES: EIP RESEARCH, ATUL LIMITED 2019 ANALYST PRESENTATION

Cresols’ multiple demand drivers will likely drive sales growth in the near future ➤

- We believe increasing adoption of cresol derivatives as a raw material or reactant in the production of antioxidants in personal care and chemical intermediates is driving cresols demand.
- Growing demand for efficient stabilisers in the chemical industry and pesticides production is also an important tailwind, in our view.
- P-Cresol is largely consumed in the production of butylated hydroxytoluene, an antioxidant used in the food, cosmetics, and pharmaceuticals sector.

Para anisic aldehyde widely used in the fragrance industry ➤

Para anisaldehyde is widely used in the fragrance and flavours industry. It is used as an intermediate in the synthesis of other compounds important to the pharmaceuticals and perfumery industries. It is a raw material for lifestyle products, so a general slowdown would hit demand and, in turn, prices, in our view.

Para anisic alcohol, another lifestyle product raw material, is also used to produce fragrances

Para anisic alcohol (4-methoxybenzyl alcohol) is an organic compound with the chemical formula $CH_3OC_6H_4CH_2OH$. It is a colourless liquid used as a fragrance and flavourant. It is produced by reducing anisaldehyde.

Aromatics are mostly used in personal care products ➤

- Fragrances and flavours
- Industrial antioxidants
- Skin care products

CPC is another important segment for Atul; 2,4-D and Indoxacarb are major compounds ➤

Figure 11: As of now within CPC, 2,4D and Indoxacarb are the main products

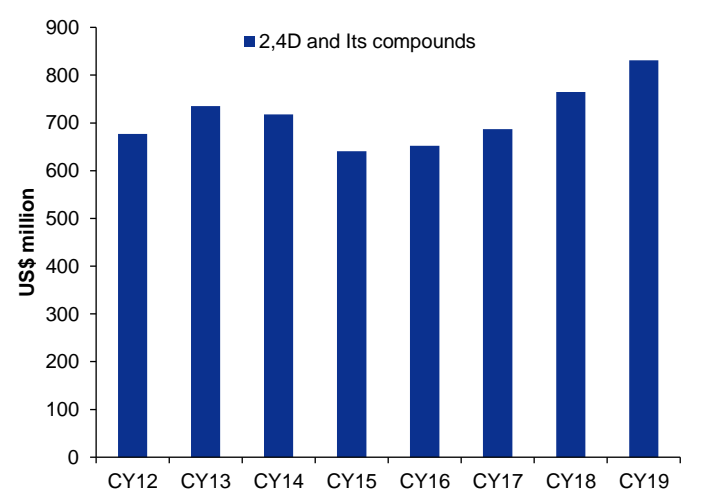
Product groups: Fungicides, Herbicides and Insecticides

Industries served: Crop protection chemicals, agriculture, lawn and garden industries

Product	Market share (2017-18)	Competition
2,4-D and downstream products	16% (World)	North America (Dow), Australia (Nufarm), Asia (CAC, Meghmani, Hanfu, Keyuan), South America (Albaugh), Europe (Adama)
Indoxacarb	7% (World)	Asia (Jingbo, Gharda and 2 other smaller producers), USA (DuPont now FMC)

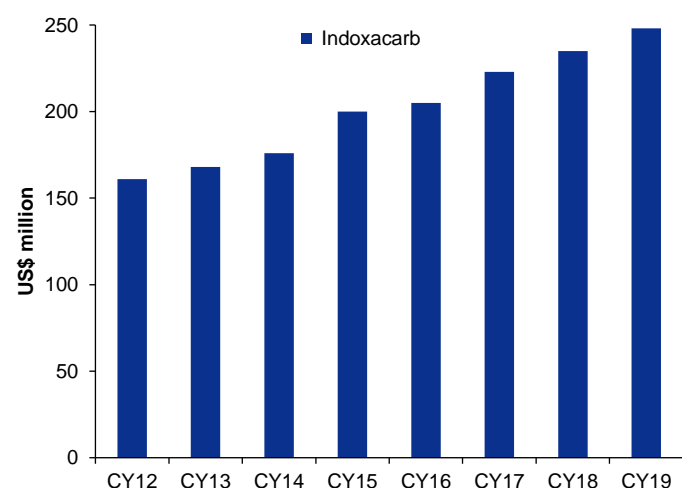
SOURCES: EIP RESEARCH, ATUL LIMITED 2019 ANALYST PRESENTATION

Figure 12: Global sales of 2,4-D and its compounds increased at 3% CAGR over CY12-19



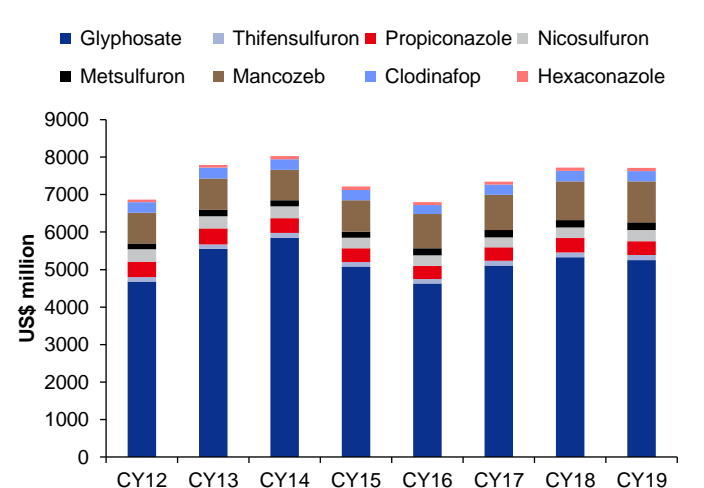
SOURCES: EIP RESEARCH, IHS MARKIT

Figure 13: Insecticide Indoxacarb's global sales grew at 6.4% CAGR over CY12-19



SOURCES: EIP RESEARCH, IHS MARKIT

Figure 14: In CPC, Atul's Mancozeb and Metsulfuron sales grew the fastest at 4% CAGR over CY12-19



SOURCES: EIP RESEARCH, IHS MARKIT

In the CPC segment, 2,4-D is one of Atul's main products ➤

- 2,4-Dichlorophenoxyacetic acid (2,4-D) is a mature, commodity herbicide, but remains an important low-cost broadleaf weed control product for many crops.
- Several formulations exist for numerous end-use products, primarily as a sole active ingredient but also with mixture partners.

2,4-D sales growth is likely to be good in coming years ➤

Historically (CY12-19), global 2,4-D sales growth has been meagre at 3%. However, multiple developments could result in high single-digit sales growth for 2,4-D in coming years.

- Corteva is in the process of commercialising corn, soybeans, and cotton tolerant to 2,4-D and glyphosate under the Enlist brand, and has developed soybeans tolerant to 2,4-D, glyphosate and glufosinate under the Enlist E3 brand.

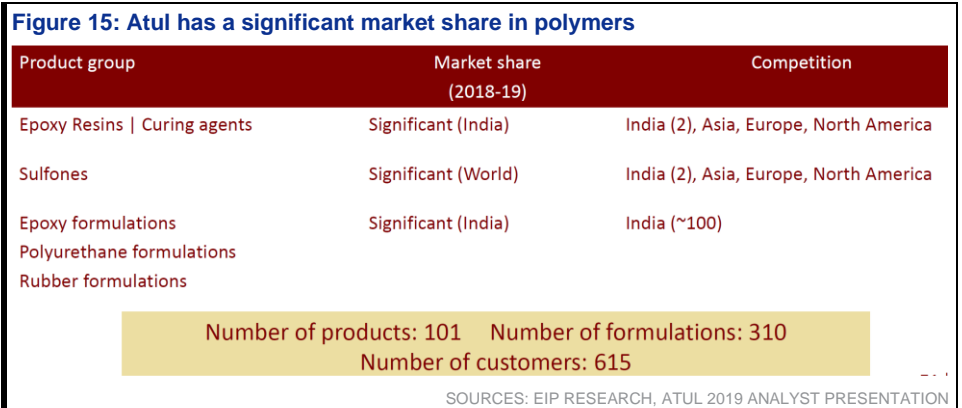
- The Enlist Duo herbicide component of this weed control system, which received US and Canadian approvals, contains glyphosate and Colex-D based on the choline salt of 2,4-D. Enlist One (2,4-D choline) was launched in the US for maize, soybean and cotton in 2018.
- The Enlist trait in corn and soybeans was approved in Canada and the US, with commercial launch in corn taking place in the US in 2018, while Enlist E3 soybeans received approval in the US and Argentina. Enlist cotton was launched in the US at the beginning of 2016. Enlist Colex-D (2,4-D choline) has been approved in Argentina for use on PowerCore Enlist maize (awaiting launch).
- In Jul 2020, Nufarm announced it would end manufacturing of 2,4-D at its Linz, Austria, site in 2021.

In terms of revenue, polymers are second to aromatics as the segment has multiple products ➤

Atul had a substantial market share in polymers as on FY21 as it has many products. In 2018-19, the company had 101 products, 310 formulations and 615 customers.

Products: Curing agents, epoxy resins, reactive diluents, rubber and polyurethane-based adhesives, and sulfones.

Industries served: Aerospace, adhesives, automobile, composites, construction, electrical and electronics, footwear, paint and coatings, wind energy.



Atul's epoxy resins are sold through its brand Lapox ➤

Atul's polymer business manufactures and markets epoxy resins, reactive diluents and curing agents under its trade name Lapox®. It began manufacturing epoxy systems in 1960 through Cibatul Ltd, a joint venture between the erstwhile Ciba-Geigy (Switzerland) and Atul. Following Ciba-Geigy's disintegration, Cibatul was merged into Atul in 1999.

Wide product range under the Lapox brand ➤

- Resins Bisphenol-A and Bisphenol-F-based resins
- Cycloaliphatic resins
- Epoxy phenol novolac resins
- Modified and formulated resins
- Multifunctional resins
- Reactive diluents Aliphatic and Aromatic (mono, di and trifunctional)
- Curing agents
- Aliphatic amines and their adducts
- Aromatic amines and their adducts
- Cycloaliphatic amines and their adducts
- Phenalkamines Polyamides and Polyamidoamine

Lapox is used widely in these industries ►

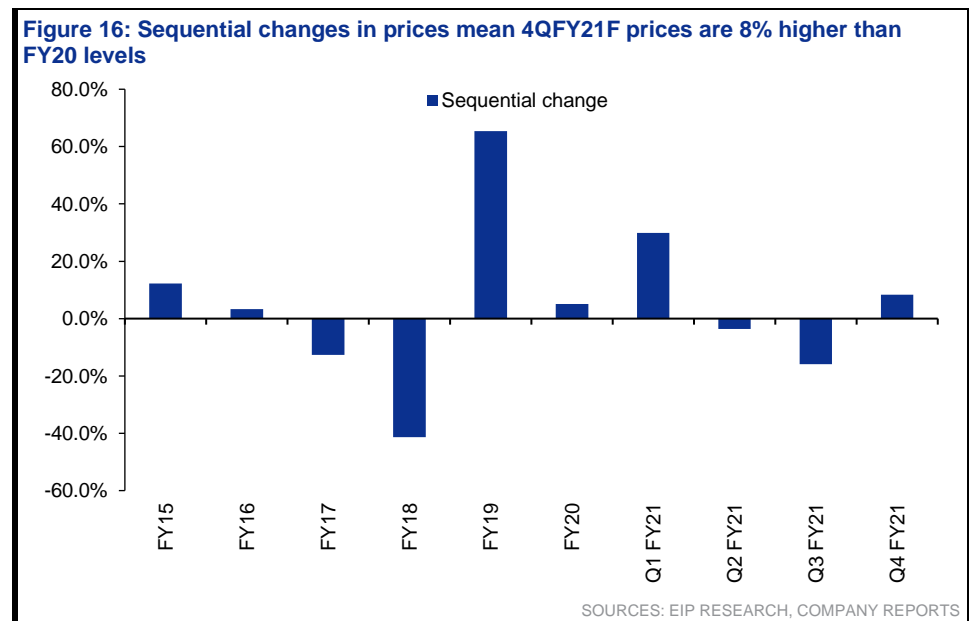
1. Adhesives
2. Aerospace and Defence Automotive Composites
3. Construction Electrical and Electronics
4. Food and Beverage packaging
5. Marine Paint and Coatings
6. Sports and Leisure Transport
7. Wind Energy

Colours are sold under VAT and Novatic series of products ►

The Colours and Dyes segment accounts for about 14% of Atul's overall revenue. It is used across such industries as:

1. Textiles
2. Paint and coatings
3. Plastics
4. Printing inks
5. Packaging
6. Fuel additives
7. Paper
8. Food products

However prices of VAT series of products have fallen ►

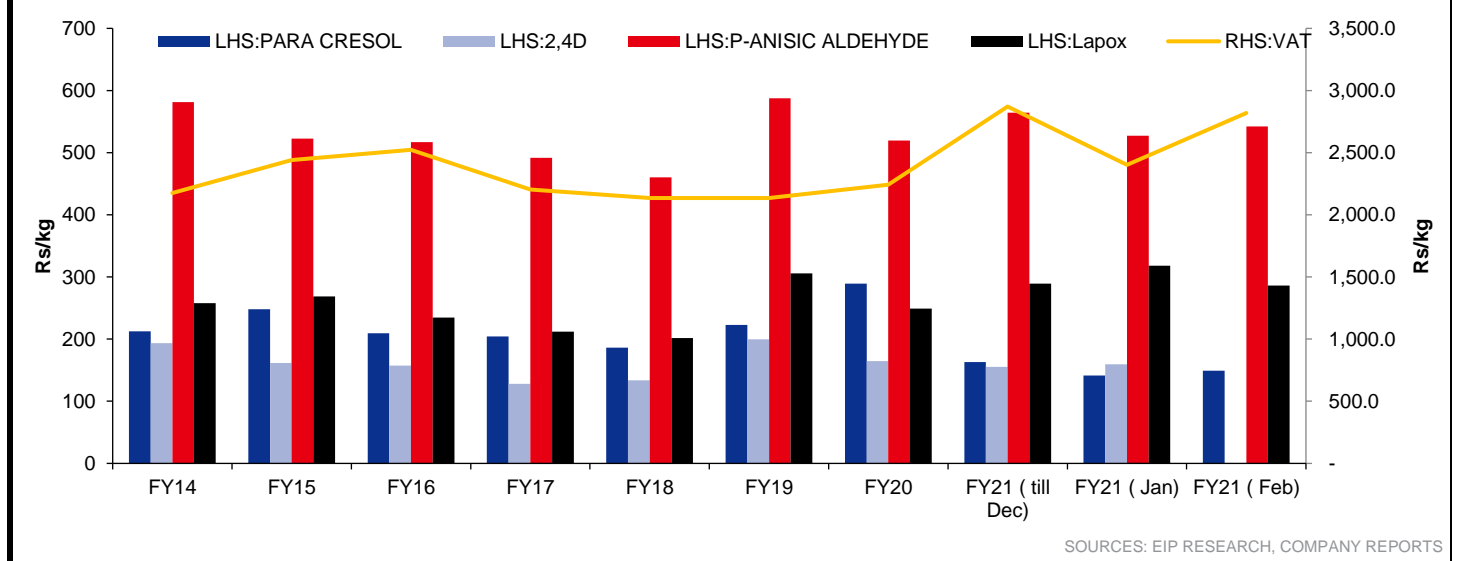


Indian textile industry's condition does not bode well for dye sales ►

Our channel checks indicate that the Indian and global textile industries are going through a tough phase. Lack of buying by end customers is hitting the industry hard, which can have a longer-term impact on dyes demand. Consequently, we believe volume growth and margins could remain under stress in this business.

Long-term realisations of Atul's top 5 products across verticals remained broadly stable ➤

Figure 17: Realisations of top 5 products stayed steady over the last 8 years



Sequential changes are volatile ➤

Figure 18: Sequential changes in realisations have been quite volatile

	FY15 over FY14	FY16 over FY15	FY17 over FY16	FY18 over FY17	FY19 over FY18	FY20 over FY19	FY21 (till Dec) over FY20	FY21 Jan Over FY21 (till Dec)	FY21-Feb Over FY21 Jan
PARA CRESOL	17%	-16%	-2%	-9%	20%	30%	-44%	-13%	5%
2,4D	-17%	-2%	-19%	4%	49%	-18%	-6%	3%	
P-ANISIC ALDEHYDE	-10%	-1%	-5%	-6%	28%	-12%	9%	-7%	3%
VAT	12%	3%	-13%	-3%	0%	5%	28%	-16%	17%
Lapox	4%	-13%	-10%	-5%	52%	-18%	16%	10%	-10%

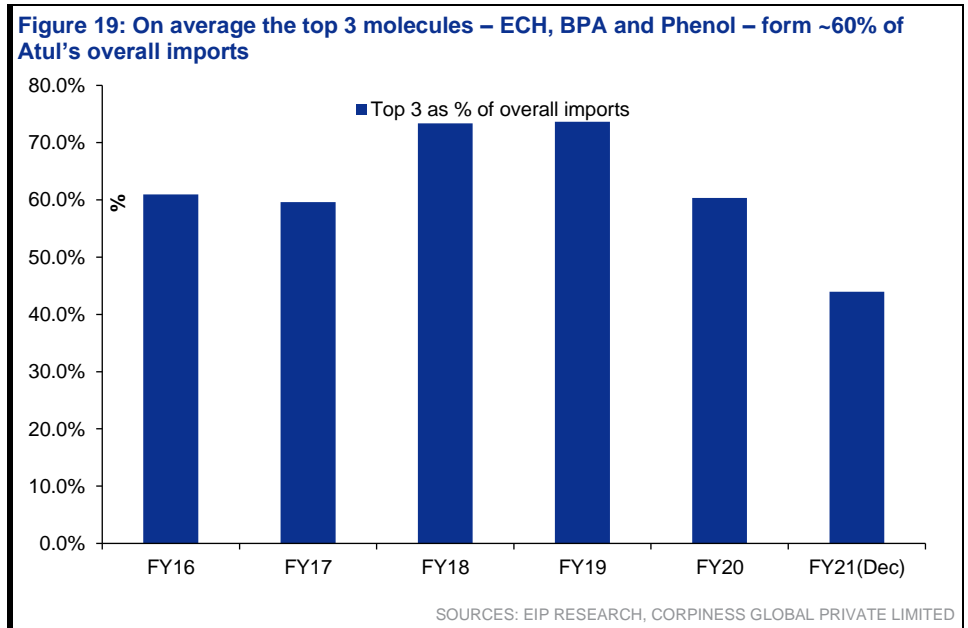
SOURCES: EIP RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

Raw material cost pressure is apparent for Atul

ECH, BPA and phenol are Atul's most important raw materials. Atul imports almost all of its ECH and BPA requirements. These products are sold on an international pricing base. Even if these products are bought from the domestic market, international prices will have a direct bearing on their raw material prices.

Atul's top 3 raw materials are ECH, BPA and Phenol ➤

The import of these raw materials forms 60% of Atul overall import bill (FY20).



ECH price varies with crude oil price as ECH is manufactured by the chlorination of crude oil product propylene ➤

Traditionally ECH is manufactured through the chlorination of propylene. As propylene (C₃H₆) is derived from crude oil, ECH's cost of production will depend on the price of crude oil. Crude oil prices are 50% higher now (current price vis-à-vis CY20 average price), raising ECH import prices by 20%. Atul imports most of its ECH requirement and uses ECH to manufacture epoxy which it sells under the brand name Lapox.

Figure 20: ECH production process

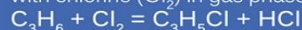
Process description

CONSER Epichlorohydrin process consists of the following main steps:

- Chlorination of propylene
- Chlorohydration of allylchloride
- Dehydrochlorination of dichlorohydrins
- Epichlorohydrin purification

Chlorination of propylene

Allylchloride (C_3H_5Cl) is obtained by direct chlorination of propylene (C_3H_6) with chlorine (Cl_2) in gas phase at rather high temperatures:

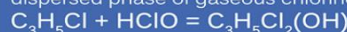


The stream leaving the reactor is fed to a depropanizer tower, which separates overhead hydrogen chloride (HCl) and propylene from raw allylchloride. This is rectified in the following section - a two column fractionating system.

The gas mixture from the depropanizer is washed with water in order to absorb residual HCl to obtain commercial hydrochloric acid. Following the washing, the resulting wet propylene is compressed, condensed, dried and recycled back to the reaction section.

Chlorohydration of allylchloride

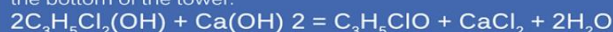
Chlorohydration of allylchloride is performed by reacting allylchloride with hypochlorous acid (HClO). The latter is obtained by mixing water with a dispersed phase of gaseous chlorine.



The rectified allylchloride, water and chlorine react at nearly ambient temperature to give dichlorohydrins with high yields.

Dichlorohydrins hydrolysis

The hydrolysis of dichlorohydrins to epichlorohydrin, using milk of lime as saponification agent (a diluted solution of Calcium oxide, is accomplished in a specific tower where epichlorohydrin is stripped by live steam injected into the bottom of the tower.



The wastewater is taken off from the bottom of stripper, while an organic phase, consisting of raw epichlorohydrin, is separated overhead.

Epichlorohydrin purification

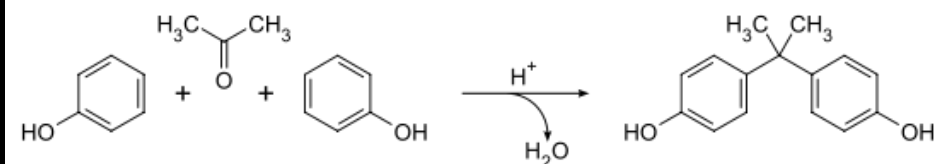
Following the saponification reactor, the raw epichlorohydrin is sent to a distillation train unit where is separated from water and the other components in order to achieve the desired purity. The section present a high degree of flexibility in order to guarantee the optimal composition in the diverse phase of production.

SOURCES: CONSER PRODUCT BROCHURE AS AVAILABLE ON ITS WEBSITE WWW.CONSPSPA.COM

Even Bisphenol-A is manufactured with crude as a base product, hence prices have risen ➤

This compound is synthesised by the condensation of acetone (denoted by the suffix A) with two equivalents of phenol. The reaction is catalysed by a strong acid, such as hydrochloric acid (HCl) or a sulfonated polystyrene resin.

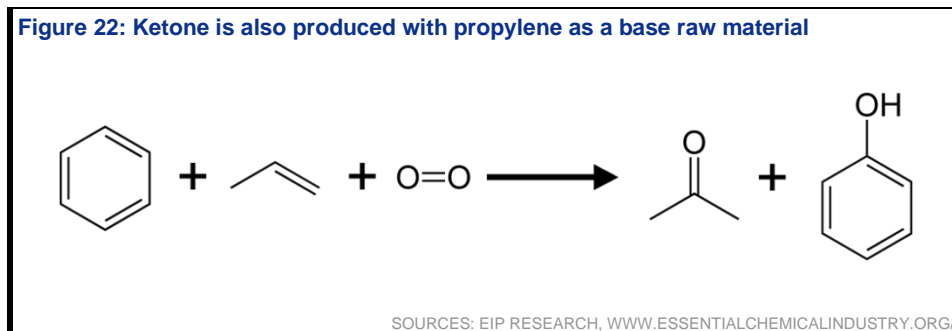
Figure 21: Bisphenol-A produced by condensation of acetone



SOURCE: WWW.ESSENTIALCHEMICALINDUSTRY.ORG

Acetone is produced directly or indirectly from propylene. About 83% of acetone is produced via the cumene process, thus tying acetone production to phenol production. In the cumene process, benzene is alkylated with propylene to produce cumene, which is oxidised by air to produce phenol and acetone.

Figure 22: Ketone is also produced with propylene as a base raw material



Phenol is produced from benzene (direct crude oil product), hence Phenol's prices also depend on crude oil ►

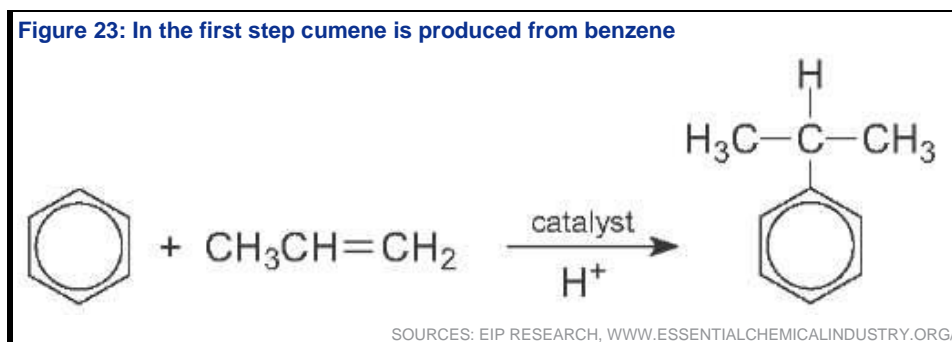
Phenol is mostly made through the cumene process, which has three stages:

- a) Production of cumene
- b) Conversion of cumene to cumene hydroperoxide
- c) Decomposition of cumene hydroperoxide

(a) Production of cumene

Cumene is produced by the reaction of benzene and propene, using an acid catalyst.

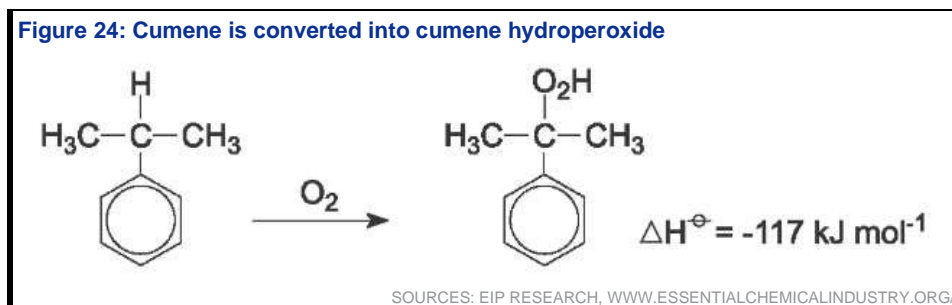
Figure 23: In the first step cumene is produced from benzene



(b) Conversion of cumene to cumene hydroperoxide

Cumene is then oxidised with air to give hydroperoxide (Figure 24). The reaction is autocatalysed by cumene hydroperoxide. The overall reaction is represented in the chart below.

Figure 24: Cumene is converted into cumene hydroperoxide

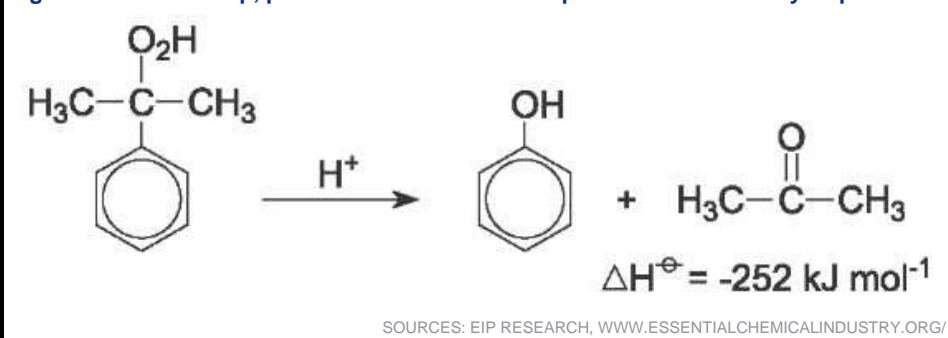


The reaction takes place at temperatures of 350-390 K and 1-7 atm pressure, the latter to retain the system in the liquid phase.

(c) Decomposition of cumene hydroperoxide

Finally, the hydroperoxide is mixed with sulfuric acid at 313-373 K to give, after neutralisation, phenol and propanone. This reaction when carried out with small amounts of sulfuric acid (500 ppm by mass) is termed homogeneous cleavage.

Figure 25: In third step, phenol is made with decomposition of cumene hydroperoxide



ECH and BPA prices increased sequentially over 9MFY21 ➤

Figure 26: Raw material prices increased sequentially in Jan 2021 over 9MFY21. Feb 2021 prices were higher than Jan 2021 prices

	FY17/ FY16	FY18/ FY17	FY19/ FY18	FY20/ FY19	FY21(Till Dec)/ FY20	FY21-Jan/ FY21(Till Dec)	FY21-Feb/ FY21 (Jan)
BIS PHENOL-A	-1%	22%	36%	-27%	2%	19%	74%
EPICHLOROHYDRIN (ECH)	-21%	34%	41%	-7%	-18%	15%	0%
Phenol	-1%	6%	71%	-23%	-30%		

SOURCES: EIP RESEARCH, CORPINESS GLOBAL PRIVATE LIMITED

4QFY21F and FY22F epoxy resin margins appear to be at risk ➤

Epoxy resins are created when ECH and BPA react. There are global capacity constraints in BPA, leading to rise in prices. The rise in ECH price is because of rapidly rising crude oil prices.

Figure 27: Atul's 4QFY21/FY22F epoxy resin margins seem at risk

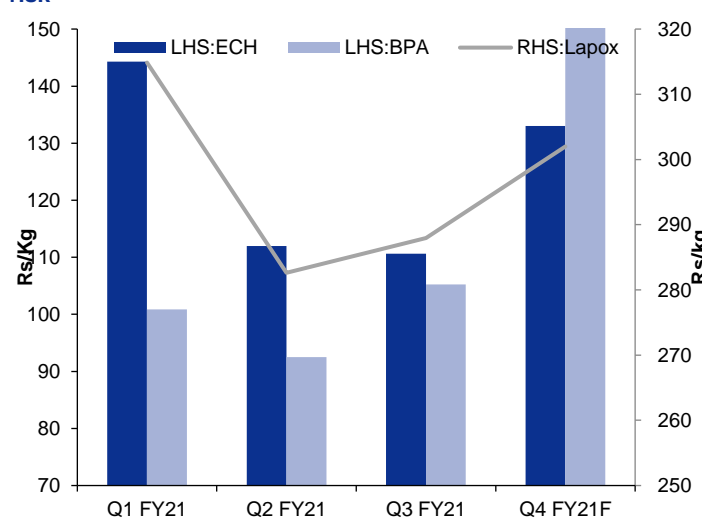
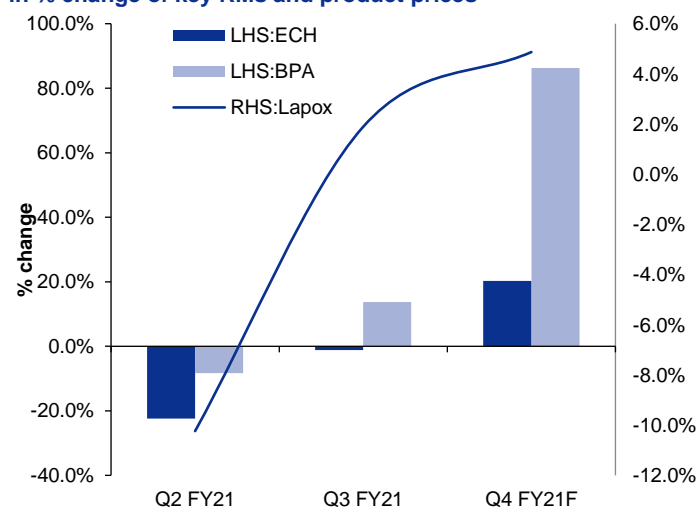


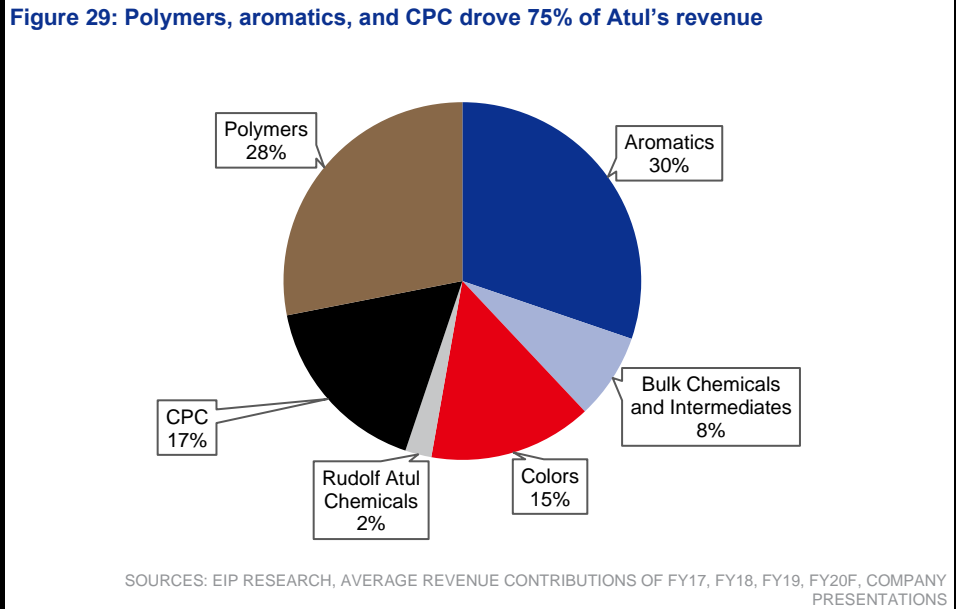
Figure 28: Sequential stress on margins will be more apparent in % change of key RMs and product prices



Earnings and valuation

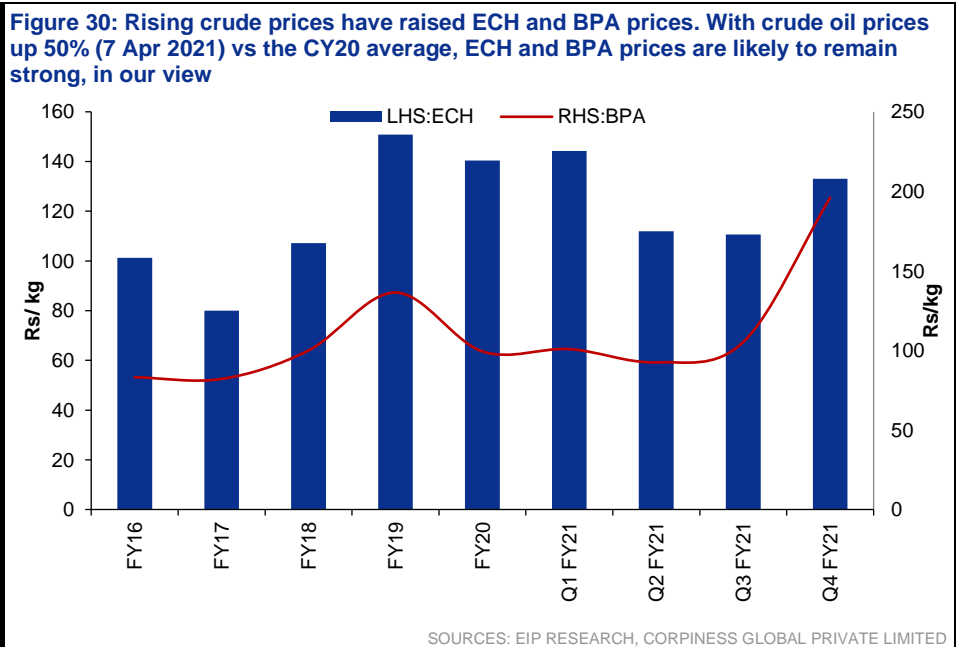
Polymers, aromatic and CPC are Atul's main revenue drivers ➤

Polymers, aromatics and CPC are Atul's key revenue drivers, accounting for 75% of its revenue in FY21F.



Key raw material prices have increased sharply and higher crude prices will ensure they don't fall ➤

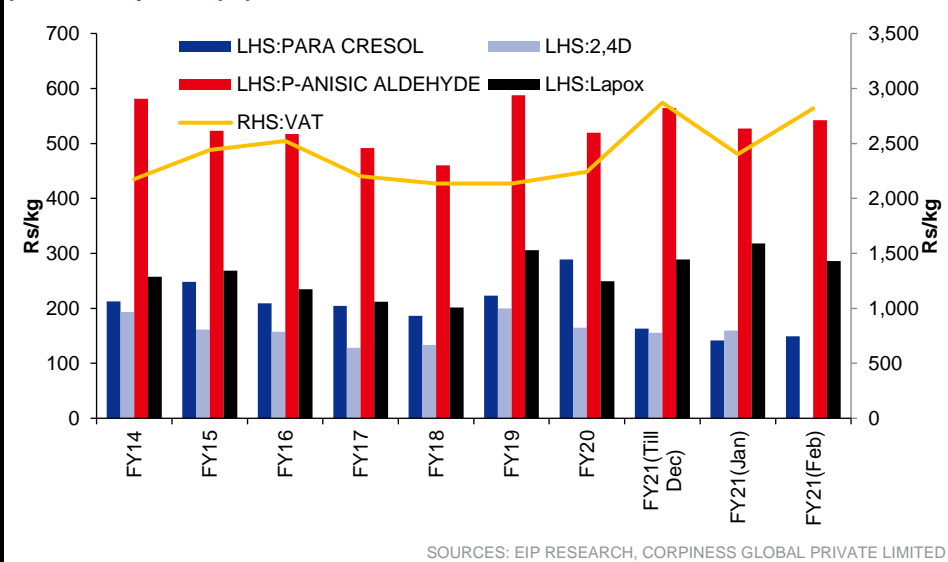
ECH and BPA are manufactured from crude oil, so when crude oil prices rise ECH / BPA prices follow suit. Crude oil prices rose by 50% on 7 Apr 2021 compared to the CY20 average, raising ECH and BPA prices.



Realisations of key products rise but are not enough to cover the rise in raw material prices ➤

While ECH prices rose by 20% qoq and BAP 80% in 4QFY21, Lapox (Epoxy brand name) rose only 5%. VAT and Para cresol prices are at the same levels as in the first nine months of FY21.

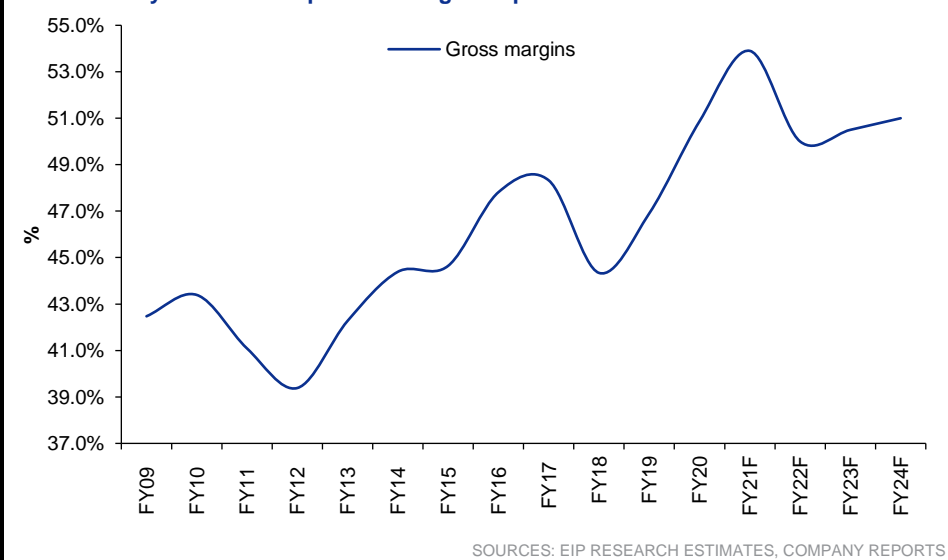
Figure 31: ECH price rose by 20% qoq and BAP by 80% in 4QFY21, but key product prices barely rose qoq



We expect gross margins to decline in coming years as RM prices have risen ➤

As raw material prices have risen but key products prices have not followed suit, gross margins are likely to decline from the peak of FY21F.

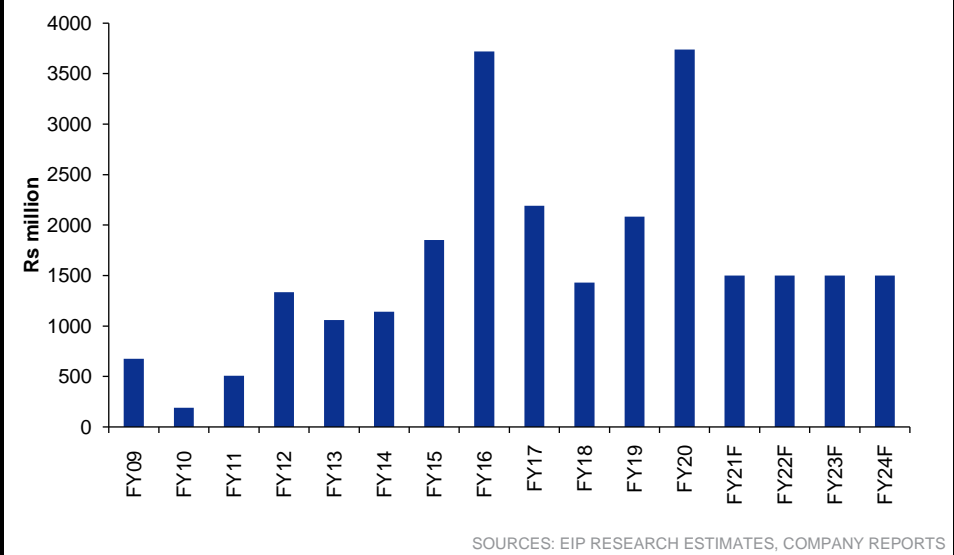
Figure 32: After reaching their 12-year peak in FY21F, gross margins are likely to decline as key raw material prices have gone up



Capex to remain moderate ➤

Company first needs to ramp up (in revenue terms) the capex put in FY20 and then it can think of further capex. Hence, we do not believe that company needs to do further capacity expansion in near term. Therefore, we have taken only maintenance capex in our estimates.

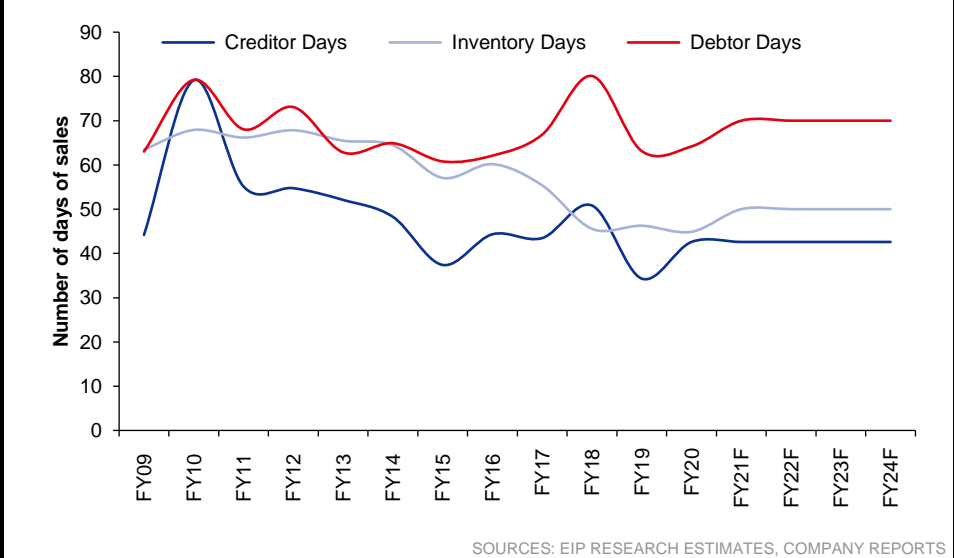
Figure 33: We expect Atul's capex to remain ~Rs1.5bn in the coming years



Working capital to remain at historical levels ➤

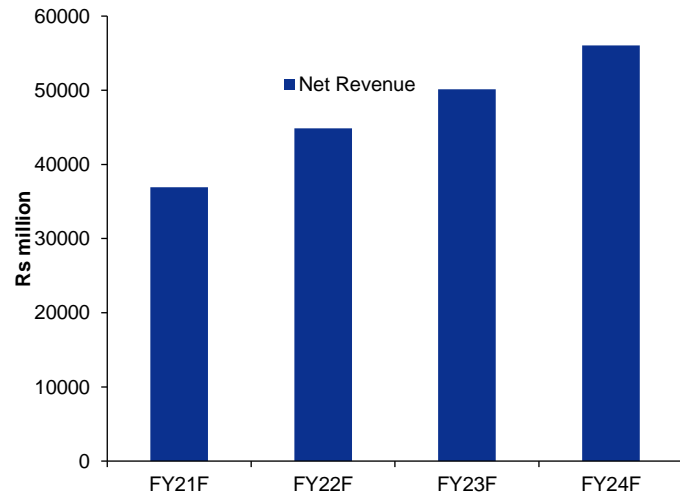
As we do not believe there is likely to be any change in trade terms (debtors/ creditor days), overall working capital is likely to remain at historical levels.

Figure 34: We do not expect any big change in Atul's working capital



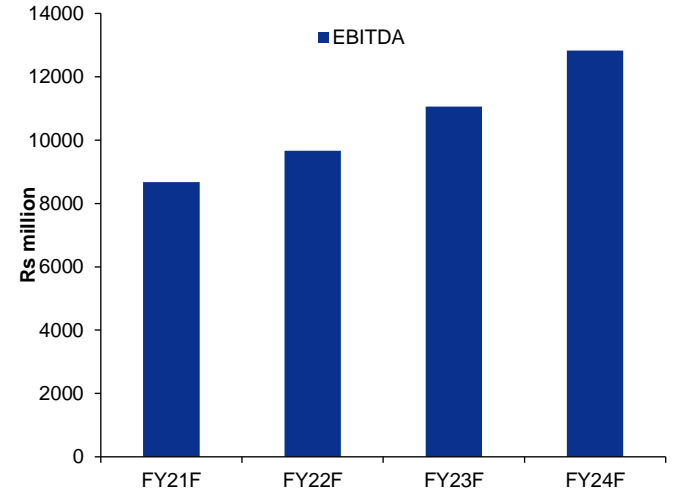
Revenue and EBITDA to grow at healthy pace from the low base of FY21F ➤

Figure 35: We estimate revenue to grow at 14.93% CAGR over FY21F-24F to touch ~Rs55 bn by FY24F



SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

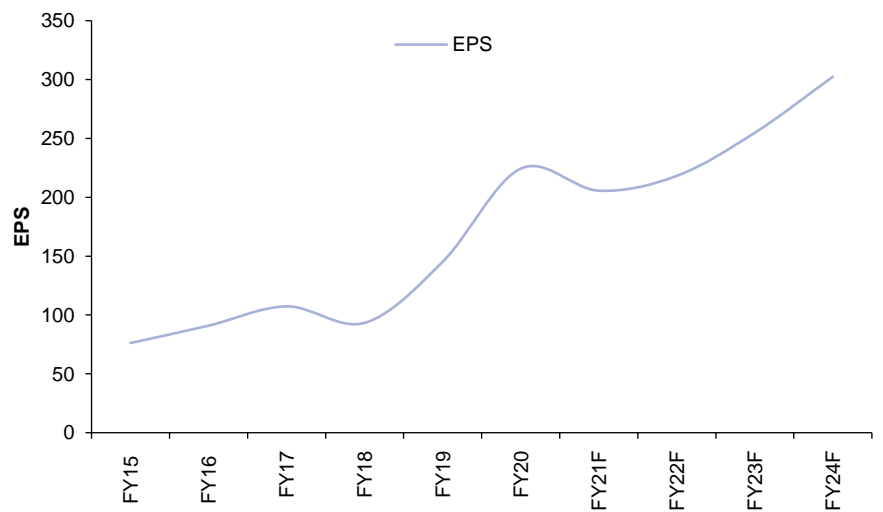
Figure 36: EBITDA to grow at 14% CAGR as we estimate gross margins to decline from FY22-24F



SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

EPS growth at 13.7% CAGR over FY21F-24F, in our view ➤

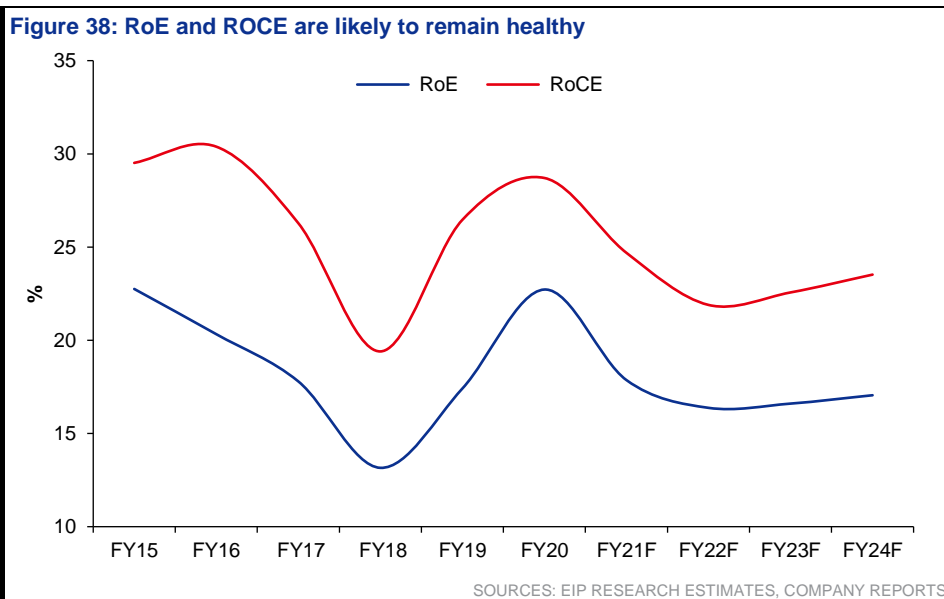
Figure 37: We estimate EPS will grow at 13.7% CAGR over FY21F-24F (%)



SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

RoE and RoCE to remain healthy ➤

We expect RoE and RoCE to remain below historical highs, but they will likely remain healthy at 15.5% and 21%, respectively, in FY23F.



DuPont analysis ➤

Despite high profitability (over 12 years), FY21-24F RoE will likely remain lower than FY20 as the asset turnover ratio is likely to remain below 1, in our view.

Figure 39: We estimate FY23F RoE to be lower than historical RoE as cash in balance sheet remains high

DuPont analysis	FY09	FY10	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20	FY21F	FY22F	FY23F	FY24F
Profitability (%)	3.46	4.57	5.76	5.30	6.26	8.96	8.51	10.40	11.24	8.40	10.67	16.27	16.53	14.43	15.08	16.01
Asset turnover (x)	1.15	1.07	1.23	1.23	1.31	1.35	1.46	1.05	1.04	1.09	1.14	0.99	0.80	0.85	0.84	0.82
Financial leverage (x)	2.33	2.33	2.22	2.23	2.07	1.92	1.75	1.52	1.39	1.34	1.31	1.32	1.26	1.25	1.23	1.21
ROE (%)	9.26	11.37	15.70	14.52	16.97	23.20	21.76	16.70	16.20	12.34	15.93	21.10	16.59	15.30	15.50	15.89

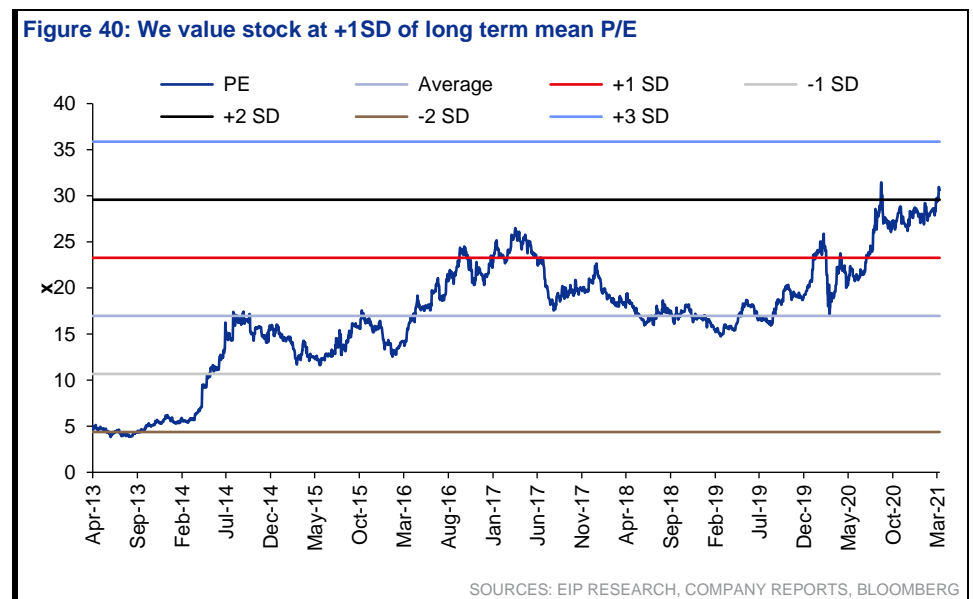
SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

Valuation & recommendation

We value Atul with a P/E methodology ➤

We value Atul on a P/E basis as we consider it a more appropriate valuation method for agrochemical companies than the DCF or EV/EBITDA. In our view, DCF is not a suitable valuation method because the earnings of chemicals companies are highly cyclical and forecasting long-term earnings reliably is difficult. We think a balance sheet-based valuation is inappropriate as short-term debt may rise because of inventory cycles or delay in subsidy payments which could distort the balance sheet for a short period (in many cases, for only one quarter).

We value Atul at 25x FY23F EPS; initiate with Reduce rating ➤



While the stock is currently trading at 28.2x FY23F EPS, we value the company at 25x FY23F EPS, which is +1SD of long-term mean P/E, to arrive at our TP of Rs6,293. At the CMP, our target price implies downside potential of 17.3% from current levels. We initiate coverage on Atul Ltd with a Reduce rating.

Figure 41: We value the stock at 25x FY23F EPS to arrive at a TP of Rs6,370

FY22F EPS	Rs/Share	218.2
FY23F EPS	Rs/Share	254.8
P/E (1-year forward on FY23F EPS)	x	25x
Target Price	Rs/Share	6,370

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

We value the company at +1SD, but at a 15% discount to its peers:

1. Core EPS growth will likely be 13.7% CAGR over FY21F-24F. This EPS growth is half of the last decade's (FY10-20) EPS CAGR of 28%. However, we believe revenue growth in the next three years will be 14.9% CAGR (FY21F-24F), higher than that of the last decade's (FY10-20) CAGR revenue growth of 13%.
2. We expect EPS growth of 13.7% CAGR for the company, whereas the peer average growth rate is >16% for FY21F-24F. Atul's RoE of 17% in FY23F is in line with its peers (peer average is 17% for FY23F). Hence, we value the stock at 25x FY23F EPS (at 15% discount to the FY23F P/E peer average). Atul's peer group comprises UPL (UPL IN, Hold, TP Rs578, CMP Rs655), Rallis (Rallis IN, Add, TP Rs355, CMP Rs266), SRF (SFR IS, Add, TP Rs6,227, CMP Rs6,226), PI Industries (PI IS, Add, TP Rs2,505, CMP Rs2,500), Vinati Organics (VOL IS, Add, TP Rs1,603, CMP Rs1,580), Navin Fluorine (NFIL IS, Hold, TP Rs2,599, CMP Rs3,085).
3. While we have built in a decline in gross margins, raw material costs can surprise us on the upside as crude remains strong (up 50% vis-à-vis CY20 average price). Hence, our PAT estimates (already below Bloomberg consensus) may see downside risk.
4. The largescale outbreak of COVID is bad news for Atul. We cannot estimate a demand decline because of the COVID pandemic situation, but there could be material downside to revenue growth if a big lockdown is announced.

Peer comparison

Figure 42: Sector Peer Comparison

Company	Bloomberg Ticker	Closing Price (LC)	Target Price* (LC)	% Upside	Rating	Market cap (US\$ m)	EV/EBITDA (x)		P/BV (x)		RoE (%)		P/E (x)	
							CY21F	CY22F	CY21F	CY22F	CY21F	CY22F	CY21F	CY22F
UPL Ltd	UPLL IN	600	578	-4%	HOLD	6,099	9.3	8.4	2.0	1.7	14.4	13.9	18.3	15.1
Rallis India Ltd	RALI IN	261	355	36%	ADD	676	13.2	12.0	3.3	3.0	16.6	16.0	21.2	19.6
SRF Limited	SRF IN	5,980	6,227	4%	ADD	4,714	18.9	16.3	4.9	4.2	18.8	17.6	29.8	25.8
PI Industries Limited	PI IN	2,441	2,505	3%	ADD	4,927	30.6	23.2	6.2	5.7	17.9	15.6	45.2	38.0
Vinati Organics Ltd	VO IN	1,581	1,603	1%	ADD	2,161	40.9	29.7	10.0	8.4	20.1	23.3	53.2	39.0
Dhanuka Agritech	DAGRI IN	720	689	-4%	REDUCE	446	13.0	11.9	4.2	3.5	26.3	22.7	17.1	16.8
Heranba Industries Ltd	HERANBA IN	633	457	-28%	REDUCE	337	17.5	17.8	6.0	4.9	34.5	24.9	24.2	25.4
Anupam Rasayan India Ltd	ANURAS IN	565	379	-33%	REDUCE	752	44.1	40.8	3.8	3.4	3.7	6.7	136.8	53.4
Laxmi Organics Ltd	LXCHEM IN	184	110	-40%	REDUCE	645	15.9	16.5	3.6	3.2	12.3	10.5	38.6	32.3
Aarti Industries	ARTO IN	1,347	1,087	-19%	REDUCE	3,122	23.2	21.7	6.2	5.0	16.1	13.1	34.6	22.0
Navin Fluorine International Ltd	NFIL IN	2,970	2,599	-12%	HOLD	1,956	41.7	33.5	7.9	7.1	12.8	15.4	54.0	48.6
Insecticide India Ltd	INST IN	460	461	0%	HOLD	127	7.3	6.8	1.2	1.1	10.7	9.9	12.2	12.0
Coromandel International Ltd	CRIN IN	726	1,000	38%	ADD	2,836	11.8	11.4	4.2	3.6	25.9	22.6	17.8	17.2
Atul Ltd	ATLP IN	7,543	6,370	-16%	REDUCE	2,969	24.9	21.9	6.2	5.4	17.7	16.3	37.8	35.6
Bayer Cropscience Ltd	BYRCS IN	5,104	6,621	30%	ADD	3,051	35.3	27.4	7.9	6.7	19.3	19.0	43.8	38.1
Bayer	BAYN GR	53	NR	NR	NR	62,315	7.7	7.1	1.2	1.1	7.7	7.7	9.1	8.3
BASF	BAS GR	71	NR	NR	NR	78,093	8.6	8.4	1.5	1.5	2.8	2.8	16.5	15.5
Corteva	CTVA US	47	NR	NR	NR	34,973	13.0	11.5	1.4	1.3	3.4	3.4	25.0	21.0

SOURCES: NR COMPANY ESTIMATES ARE FROM BLOOMBERG CONSENSUS

SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS, BLOOMBERG, PRICED AS AT 13 APRIL 2021

Risks

1. We expect gross margin to decline as raw material prices shot up significantly in 4QFY21 (Source: Corpiness Global Private Limited). However, any sudden correction in raw materials will maintain gross margins, hence, EPS will be higher than our estimates.
2. We expect normal inflation in fixed cost (at the same rate as the Consumer Price Index). However, if there is a widespread deflationary environment then costs may surprise us positively.
3. Despite poor PAT growth the stock can keep rerating even if global liquidity persists. Ample global liquidity could reduce the cost of capital which in turn may lead to expansion in P/E multiples.

SWOT Analysis

Figure 43: Atul Ltd

Strength	Weakness
Leader in aromatics and polymers in India.	With no backward integration, volatility in raw materials may hit Atul hard.
Opportunity	Threat
Growing Indian economy is an opportunity as most of Atul's products are related to consumption.	The inability to pass on cost increases is a big threat.

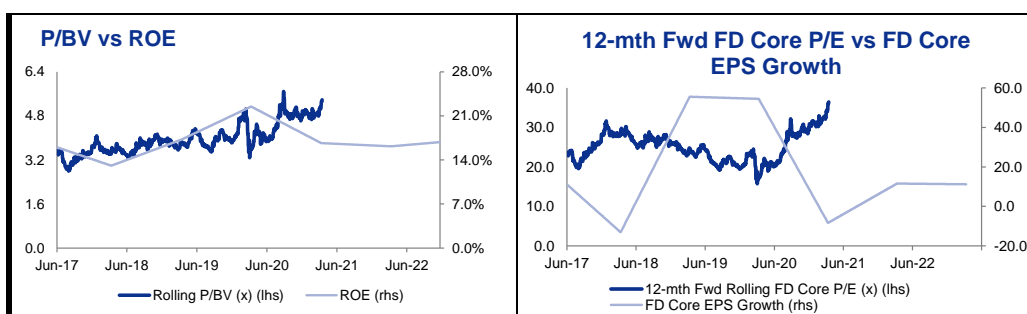
SOURCES: EIP RESEARCH ESTIMATES, COMPANY REPORTS

Annexure

Figure 44: Key management profiles at Atul Ltd as on FY21

<p>Sunil Lalbhai Executive Director and Promoter</p>	<p>Mr Sunil Lalbhai has been the company's Managing Director since Jun 1984 and the Chairman of the Board since Aug 2007. He is a member of the Corporate Social Responsibility Committee, the Investment Committee, the Risk Management Committee and the Stakeholders Relationship Committee of the Board. Mr Lalbhai is a Member of the Governing Council of Shree Vallabh Shikshan Ashram and a Trustee on the Board of BAIF Development Research Foundation. He is Chairman of the Finance Committee and HR Committee of BAIF. He is the Chairman of DHRUVA and GRISERV, two BAIF-promoted trusts. Mr Lalbhai holds a postgraduate degree in Chemistry from the University of Massachusetts and a postgraduate degree in Economic Policy and Planning from Northeastern University.</p>
<p>Gopi Kannan Thirukonda CFO and Whole-time Director</p>	<p>Mr Gopi Kannan Thirukonda joined the company in Oct 1993 and has been a Whole-time Director since Oct 2014. He is a Member of the Risk Management Committee and the Stakeholders Relationship Committee of the Board. He has 34 years of experience in various capacities and is currently the Chief Financial Officer. Mr Thirukonda holds a degree in Science from the University of Madras and a postgraduate diploma in management from the Indian Institute of Management, Ahmedabad. He is a Fellow Member of the Institute of Chartered Accountants of India, the Institute of Cost and Management Accountants of India and the Institute of Company Secretaries of India.</p>

SOURCE: COMPANY WEBSITE

BY THE NUMBERS

Profit & Loss

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Net Revenues	40,378	40,931	36,921	44,860	50,143
Gross Profit	19,317	21,230	19,937	22,430	25,322
Operating EBITDA	7,668	9,020	8,677	9,670	11,062
Depreciation And Amortisation	(1,189)	(1,302)	(1,424)	(1,551)	(1,679)
Operating EBIT	6,479	7,718	7,253	8,119	9,384
Financial Income/(Expense)	(74)	(94)	(94)	(94)	(94)
Pretax Income/(Loss) from Assoc.					
Non-Operating Income/(Expense)	349	780	1,000	633	822
Profit Before Tax (pre-EI)	6,753	8,404	8,159	8,658	10,112
Exceptional Items					
Pre-tax Profit	6,753	8,404	8,159	8,658	10,112
Taxation	(2,443)	(1,745)	(2,056)	(2,182)	(2,548)
Exceptional Income - post-tax					
Profit After Tax	4,310	6,659	6,103	6,476	7,564
Minority Interests					
Preferred Dividends					
FX Gain/(Loss) - post tax					
Other Adjustments - post-tax					
Net Profit	4,310	6,659	6,103	6,476	7,564
Recurring Net Profit	4,310	6,659	6,103	6,476	7,564
Fully Diluted Recurring Net Profit	4,310	6,659	6,103	6,476	7,564

Cash Flow

(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
EBITDA	7,668	9,020	8,677	9,670	11,062
Cash Flow from Invt. & Assoc.					
Change In Working Capital	(1,427)	1,618	(375)	(1,684)	(1,120)
(Incr)/Decr in Total Provisions					
Other Non-Cash (Income)/Expense	(62)	(486)			
Other Operating Cashflow	473	924	1,093	726	915
Net Interest (Paid)/Received	(74)	(94)	(94)	(94)	(94)
Tax Paid	(2,541)	(2,168)	(2,056)	(2,182)	(2,548)
Cashflow From Operations	4,036	8,814	7,245	6,437	8,215
Capex	(2,084)	(3,740)	(1,500)	(1,500)	(1,500)
Disposals Of FAs/subsidiaries		6			
Acq. Of Subsidiaries/investments	(2,090)	(4,365)			
Other Investing Cashflow	99	243			
Cash Flow From Investing	(4,075)	(7,857)	(1,500)	(1,500)	(1,500)
Debt Raised/(repaid)	389	537			
Proceeds From Issue Of Shares					
Shares Repurchased					
Dividends Paid	(410)	(1,504)	(879)	(932)	(1,089)
Preferred Dividends					
Other Financing Cashflow	11	(109)	(94)	(94)	(94)
Cash Flow From Financing	(11)	(1,076)	(973)	(1,026)	(1,183)
Total Cash Generated	(50)	(119)	4,772	3,910	5,532
Free Cashflow To Equity	350	1,494	5,745	4,937	6,715
Free Cashflow To Firm	35	1,051	5,839	5,031	6,809

SOURCES: EIP RESEARCH, COMPANY REPORTS

BY THE NUMBERS...cont'd

Balance Sheet					
(Rs mn)	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Total Cash And Equivalents	2,633	6,871	11,643	15,553	21,086
Total Debtors	6,985	7,197	7,081	8,603	9,617
Inventories	5,118	5,034	5,058	6,145	6,869
Total Other Current Assets	2,210	2,008	2,008	2,008	2,008
Total Current Assets	16,946	21,110	25,789	32,309	39,579
Fixed Assets	12,731	14,824	14,900	14,849	14,670
Total Investments	5,275	4,671	4,671	4,671	4,671
Intangible Assets	323	291	291	291	291
Total Other Non-Current Assets	488	900	900	900	900
Total Non-current Assets	18,817	20,687	20,763	20,711	20,533
Short-term Debt	94	104	104	104	104
Current Portion of Long-Term Debt					
Total Creditors	3,796	4,776	4,308	5,235	5,851
Other Current Liabilities	1,769	1,763	1,763	1,763	1,763
Total Current Liabilities	5,660	6,643	6,175	7,102	7,718
Total Long-term Debt	476	1,096	1,096	1,096	1,096
Hybrid Debt - Debt Component					
Total Other Non-Current Liabilities	423	605	605	605	605
Total Non-current Liabilities	899	1,701	1,701	1,701	1,701
Total Provisions	1,586	1,348	1,348	1,348	1,348
Total Liabilities	8,145	9,692	9,224	10,151	10,767
Shareholders Equity	27,380	31,840	37,064	42,607	49,081
Minority Interests	238	264	264	264	264
Total Equity	27,618	32,104	37,328	42,870	49,344

Key Ratios					
	Mar-19A	Mar-20A	Mar-21F	Mar-22F	Mar-23F
Revenue Growth	22.5%	1.4%	(9.8%)	21.5%	11.8%
Operating EBITDA Growth	51.8%	17.6%	(3.8%)	11.4%	14.4%
Operating EBITDA Margin	19.0%	22.0%	23.5%	21.6%	22.1%
Net Cash Per Share (Rs)	69.52	191.07	351.85	483.60	670.01
BVPS (Rs)	922.51	1,072.79	1,248.78	1,435.54	1,653.66
Gross Interest Cover	87.43	82.11	77.16	86.37	99.83
Effective Tax Rate	36.2%	20.8%	25.2%	25.2%	25.2%
Net Dividend Payout Ratio		12.3%	12.0%	12.0%	12.0%
Accounts Receivables Days	64.27	63.23	70.58	63.81	66.31
Inventory Days	80.00	94.05	108.44	91.15	95.69
Accounts Payables Days	72.67	79.42	97.62	77.65	81.51
ROIC (%)	20.9%	27.4%	22.9%	25.1%	27.2%
ROCE (%)	24.0%	24.1%	19.6%	19.1%	19.4%
Return On Average Assets	13.2%	17.4%	14.0%	13.1%	13.5%

SOURCES: EIP RESEARCH, COMPANY REPORTS

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Corporate Governance Report of Thai Listed Companies (CGR). CG Rating by the Thai Institute of Directors Association (Thai IOD) in 2019, Anti-Corruption 2019

ADVANC – Excellent, Certified, **AEONTS** – Good, n/a, **AH** – Very Good, n/a, **AMATA** – Excellent, Declared, **ANAN** – Excellent, Declared, **AOT** – Excellent, n/a, **AP** – Excellent, Certified, **ASP** – Very Good, Certified, **BAM** – not available, n/a, **BANPU** – Excellent, Certified, **BAY** – Excellent, Certified, **BBL** – Very Good, Certified, **BCH** – Good, Certified, **BGP** – Excellent, Certified, **BPCG** – Excellent, Certified, **BDMS** – Very Good, n/a, **BEAUTY** – Good, n/a, **BEC** – Very Good, n/a, **BGRIM** – Very Good, Declared, **BH** – Good, n/a, **BJC** – Very Good, n/a, **BJCHI** – Very Good, Certified, **BLA** – Very Good, Certified, **BPP** – Very Good, Declared, **BR** – Good, n/a, **BTS** – Excellent, Certified, **CBG** – Very Good, n/a, **CCET** – Good, n/a, **CENDEL** – Very Good, Certified, **CHAYO** – Good, n/a, **CHG** – Very Good, Declared, **CK** – Excellent, n/a, **COL** – Excellent, Declared, **CPALL** – Excellent, Certified, **CPF** – Excellent, Certified, **CPN** – Excellent, Certified, **CPNREIT** – not available, n/a, **CRC** – not available, n/a, **DELTA** – Excellent, Declared, **DEMCO** – Excellent, Certified, **DDD** – Very Good, n/a, **DIF** – not available, n/a, **DREIT** – not available, n/a, **DTAC** – Excellent, Certified, **EA** – Excellent, n/a, **ECL** – Very Good, Certified, **EGCO** – Excellent, Certified, **EPG** – Very Good, n/a, **ERW** – Very Good, n/a, **GFPT** – Excellent, Certified, **GGC** – Excellent, Certified, **GLOBAL** – Very Good, n/a, **GLOW** – Very Good, Certified, **GPSC** – Excellent, Certified, **GULF** – Very Good, n/a, **GUNKUL** – Excellent, Certified, **HANA** – Excellent, Certified, **HMPRO** – Excellent, Certified, **HUMAN** – Good, n/a, **ICHI** – Excellent, Declared, **III** – Excellent, n/a, **INTUCH** – Excellent, Certified, **IRPC** – Excellent, Certified, **ITD** – Very Good, n/a, **IVL** – Excellent, Certified, **JASIF** – not available, n/a, **BJC** – Very Good, n/a, **JMT** – Very Good, n/a, **KBANK** – Excellent, Certified, **KCE** – Excellent, Certified, **KKP** – Excellent, Certified, **KSL** – Excellent, Certified, **KTB** – Excellent, Certified, **KTC** – Excellent, Certified, **LH** – Excellent, n/a, **LPN** – Excellent, Certified, **M** – Very Good, Certified, **MACO** – Very Good, n/a, **MAJOR** – Very Good, n/a, **MAKRO** – Excellent, Certified, **MALEE** – Excellent, Certified, **MC** – Excellent, Certified, **MCOT** – Excellent, Certified, **MEGA** – Very Good, n/a, **MINT** – Excellent, Certified, **MK** – Very Good, n/a, **MTC** – Excellent, n/a, **NETBAY** – Very Good, n/a, **OSP** – Very Good, n/a, **PLANB** – Excellent, Certified, **PLAT** – Very Good, Certified, **PR9** – Excellent, n/a, **PSH** – Excellent, Certified, **PSTC** – Very Good, Certified, **PTT** – Excellent, Certified, **PTTEP** – Excellent, Certified, **PTTGC** – Excellent, Certified, **QH** – Excellent, Certified, **RATCH** – Excellent, Certified, **ROBINS** – Excellent, Certified, **RS** – Excellent, n/a, **RSP** – not available, n/a, **S** – Excellent, n/a, **SAPPE** – Very Good, Declared, **SAT** – Excellent, Certified, **SAWAD** – Very Good, n/a, **SC** – Excellent, Certified, **SCB** – Excellent, Certified, **SCC** – Excellent, Certified, **SCN** – Excellent, Certified, **SF** – Good, n/a, **SHR** – not available, n/a, **SIRI** – Very Good, Certified, **SPA** – Good, n/a, **SPALI** – Excellent, n/a, **SPRC** – Excellent, Certified, **STA** – Very Good, Certified, **STEC** – Excellent, n/a, **SVI** – Excellent, Certified, **SYNEX** – Excellent, Certified, **TASCO** – Excellent, Certified, **TCAP** – Excellent, Certified, **THANI** – Excellent, Certified, **TIPCO** – Very Good, Certified, **TISCO** – Excellent, Certified, **TKN** – Very Good, n/a, **TMB** – Excellent, Certified, **TNR** – Very Good, Certified, **TOP** – Excellent, Certified, **TPCH** – Good, n/a, **TIPIP** – Good, n/a, **TRUE** – Excellent, Certified, **TU** – Excellent, Certified, **TVO** – Excellent, Declared, **UNIQ** – not available, n/a, **VGI** – Excellent, Certified, **WHA** – Excellent, Certified, **WHART** – not available, n/a, **WICE** – Excellent, Certified, **WORK** – Good, n/a.

1 CG Score 2019 from Thai Institute of Directors Association (IOD)

2 AGM Level 2018 from Thai Investors Association

3 Companies participating in Thailand's Private Sector Collective Action Coalition Against Corruption programme (Thai CAC) under Thai Institute of Directors (as of November 30, 2018) are categorised into:

companies that have declared their intention to join CAC, and companies certified by CAC.

4 The Stock Exchange of Thailand : the record of listed companies with corporate sustainable development "Thai sustainability Investment 2018" included:

SET and mai listed companies passed the assessment conducted by the Stock Exchange of Thailand: THSI (SET) and THSI (mai)

SET listed companies passed the assessment conducted by the Dow Jones Sustainability Indices (DJSI)

Recommendation Framework

Stock Ratings

Definition:

Add	The stock's total return is expected to exceed 10% over the next 12 months.
Hold	The stock's total return is expected to be between 0% and positive 10% over the next 12 months.
Reduce	The stock's total return is expected to fall below 0% or more over the next 12 months.

The total expected return of a stock is defined as the sum of the: (i) percentage difference between the target price and the current price and (ii) the forward net dividend yields of the stock. Stock price targets have an investment horizon of 12 months.

Sector Ratings

Definition:

Overweight	An Overweight rating means stocks in the sector have, on a market cap-weighted basis, a positive absolute recommendation.
Neutral	A Neutral rating means stocks in the sector have, on a market cap-weighted basis, a neutral absolute recommendation.
Underweight	An Underweight rating means stocks in the sector have, on a market cap-weighted basis, a negative absolute recommendation.

Country Ratings

Definition:

Overweight	An Overweight rating means investors should be positioned with an above-market weight in this country relative to benchmark.
Neutral	A Neutral rating means investors should be positioned with a neutral weight in this country relative to benchmark.
Underweight	An Underweight rating means investors should be positioned with a below-market weight in this country relative to benchmark.